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Colombo	100.00	100.00	100.00	100.00
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Manila	100.00	100.00	100.00	100.00
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Tokyo	100.00	100.00	100.00	100.00
Hong Kong	100.00	100.00	100.00	100.00
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Seoul	100.00	100.00	100.00	100.00
Osaka	100.00	100.00	100.00	100.00
London	100.00	100.00	100.00	100.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

EC ELECTIONS
A mandate which goes beyond 1992
Page 18

No. 30,855

Tuesday May 30 1989

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World News

Nakasone resignation clears way for Uno

The resignation from Japan's ruling Liberal Democratic Party of former Prime Minister Yasuhiro Nakasone appears to clear the way for Mr Sosuke Uno, the Foreign Minister, to take over as premier.

Mr Nakasone said he felt a "strong responsibility" for the Recruit-bribery scandal, the subject of an 11-month official investigation which ended with unexpected suddenness yesterday. Page 20

Wright set to go

Republicans waging an ethics crusade in the US House of Representatives are this week expected to complete the rout of the Democratic leadership by forcing the resignation of Jim Wright, the Speaker. Page 20

Alfonso fixes rate

President Raul Alfonsin of Argentina announced a series of emergency economic measures, including a return to a single exchange rate fixed and regulated by the government. Page 4

Chief to be chosen

Members of Hong Kong's executive and legislative councils meet today to try to agree on a post-1997 model for the selection of the territory's chief executive. Page 7

300 Turks expelled

Around 300 ethnic Turks arrived in Istanbul after being expelled from Bulgaria following attacks on ethnic followers by the police and army which left an unknown number of the protesters dead and injured. Page 4

Palme charged

Charles Palme, a 68-year-old Swede with a record of crime and drug abuse, was charged with the premeditated murder of Prime Minister Olof Palme. Page 2

Syrian tribute

Syria has paid a warm tribute to the US Administration, after criticism of Israel voiced last week by Mr James Baker, Secretary of State. Page 7

Jalalabad siege

An Afghan military spokesman reported at least 480 people were killed in a new surge of fighting around the besieged eastern cities of Jalalabad and Khost. Page 2

Business Summary

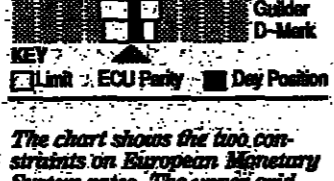
Underwriters pull out of Hong Kong rights issue

UNREST in China led to the abandonment of one of Hong Kong's biggest fundraising exercises when underwriters withdrew from a HK\$3.8 billion (500m) one-for-one rights issue launched seven weeks ago by Hopewell Holdings, a prominent property and construction group. Page 24

EUROPEAN Monetary System

The Italian lira improved quite sharply against its EMS partners last week; the Bank of Italy was active buying both D-Marks and French francs.

The D-Mark's fall against the dollar early in the week helped the lower priced members of the system to improve, because funds are switched from the D-Mark to the dollar to a greater extent than with other currencies.



The chart shows the two constraints on European Monetary System rules. The upper grid, based on the fixed currency in the system to define the process, shows that no currency (except the lira) may move more than 2% against the central rate. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (ECU), a basket of European currencies. Circles: Page 38

STOCKBROKERS, company

secretaries and registrars are mounting a rebellion which is likely to block a stock exchange proposal for computerising the tortuous and costly paper-based process of setting and registering share bargains. Page 20

SUN Microsystems, world

leader in computer workstations, has licensed its technology to Toshiba of Japan, leading Japanese personal computer manufacturer. Background, Page 21

GENCOOR, South Africa's

second largest mining house, is to raise R1.5bn (\$350m) in new equity capital in anticipation of several new mining and energy projects. Page 24

CHASE MANHATTAN added

significantly to its credit card business by purchasing a \$1.1bn portfolio of Visa and MasterCard accounts from Independence One Bank of South Dakota, the largest ever deal of its kind. Page 23

THE International Stock

Exchange granted permission for a new kind of warrant to be listed in London, thus enhancing the product's appeal to certain types of investors. Page 24

Bush wins Nato support for arms cuts proposals

By Robert Mauthner, Peter Riddell and David White in Brussels

PRESIDENT George Bush yesterday won broad support from Nato allies for far-reaching proposals to reduce conventional arms in Europe presented at the heads of government summit in Brussels.

Mr Bush's new plan, only decided upon in the last 10 days, is intended to challenge Mr Mikhail Gorbachev, the Soviet leader, by proposing a 20 per cent cut in US forces in Europe and inviting Moscow to make much more drastic cuts to reach the same level of 275,000 foreign-based troops.

As a further conciliatory move, both towards the Soviet Union and allies like West Germany and Britain, Mr Bush announced the end of the "no exceptions" rule on restricting western technology exports to the Soviet Union. Several members of the Comm, the vetting agency for such sales, have been pressing the US to ease the rule imposed after the Soviet invasion of Afghanistan in 1979.

Mr Bush also proposed a sharply accelerated timetable for the conventional arms talks in Vienna, seeking agreement within the next year and implementation by 1992 to 1993. This is four years earlier than the Soviets had proposed and would bring forward the time when Nato might engage in talks on short-range nuclear missiles.

After outlining his plan an enthusiastic Mr Bush said the US was going "on the offensive with a proposal that is bold, and tests whether the Soviet Union will move towards balance, or whether they insist on retaining an unacceptable conventional force imbalance."

His proposals were generally welcomed by other Nato leaders. Chancellor Helmut Kohl of West Germany talked of a "far-reaching step with which he has once more impressively affirmed the US leadership."

Mrs Margaret Thatcher, the British Prime Minister, said the initiative went "to the heart" of Soviet conventional arms superiority.

President Francois Mitterrand of France warmly welcomed the proposals, but both France and Britain expressed concern that reductions in Nato aircraft should not affect their fighters equipped to carry nuclear weapons.

Meanwhile, foreign ministers were expected to meet late into last night to resolve the deadlock over Nato policy over short-range nuclear missiles.

Without a breakthrough they will be unable to adopt the "comprehensive concept," laying down the framework for the alliance's future arms control and armaments policy.

The US asked its allies to join in preparing the proposal for formal presentation at the Vienna talks "at the earliest possible date."

The proposals broke unexpected new ground in bringing combat aircraft and helicopters within the scope of western proposals. Nato has so far resisted Warsaw Pact pressure to negotiate on air power, arguing that the issues were too complex. However, these negotiations would come only after agreement on targets for maximum numbers of tanks, artillery and troop carriers, the weapons which Nato considers most threatening.

In a bid to resolve Nato's bitterest split, Mr Bush said that



Mr Bush and Mrs Thatcher before yesterday's summit started

The main sticking points over short-range missiles have been the timing of negotiations and the question of whether all such weapons might eventually be scrapped, the so-called "comprehensive concept".

Continued on Page 20
Summit news, Page 2

China likely to dismiss Zhao as party chief

By Robert Thomson in Peking

DENG XIAOPING, China's paramount leader, has presented senior Communist party officials with evidence of alleged political crimes by Zhao Ziyang, who is widely expected to be dismissed as Communist party chief later this week.

Among the charges against Zhao is that of using the student protest movement which has swept the country to further his own political career.

The piling up of evidence against the party leader - including tapped telephone conversations - appears to reflect Deng's wish that the formal purging of Zhao have at least an appearance of unanimity and legality.

Criticism of Zhao at party meetings over the weekend included references to his "bourgeois tendencies" and to his departure from "collective leadership."

One document listed specific offences such as taking sick leave when martial law was announced on May 19, and praising the students in public speeches.

Other materials presented by Deng include pamphlets distributed by Zhao staff and colleagues to the students, which give details of the bitter internal struggle and highlight Zhao's support for the students.

The students in Peking's Tiananmen Square were erecting a makeshift Statue of Liberty early this morning in a gesture of continuing defiance. Their numbers had fallen to about 5,000, but tens of thousands of passers-by stopped to watch the work in progress.

Over the weekend, the protesters marched through the city with mocking portraits of Li Peng, the Prime Minister, in Nazi uniform.

Li Peng was with his family and military friends at a base in the Fragrant Hills to the west of Peking, near the summer palace where the last of China's emperors sought refuge from the seasonal heat.

It was appropriate that Li spent part of the weekend in the company of the military, as the People's Liberation Army (PLA) has virtually determined the outcome of this phase of China's political battle.

Deng is said to have panicked when he heard rumours of coup plans late last month, and ordered a crackdown, while attempting to build an alliance of retired, aged leaders

to lead the struggle against Zhao.

Deng later told associates that he had been misinformed about the alleged coup, but was still reliant on sympathetic factions within the PLA and six elderly comrades.

Crucial to the success of the campaign has been Chen Yun, 88, an elderly economist and sometime antagonist of Deng, who told the paramount leader that "if we take one step back, we will have to take two steps."

Chen, who has disagreed with Zhao over economics and ideology, chaired a meeting on Friday of the Central Advisory Commission. "The Commission has no formal power, but it gave the first public notice of the 'secret plot' supposedly orchestrated by the party chief."

Zhao knew his career was over 10 days ago when he made a dramatic early morning call on students in Tiananmen Square and uttered the prophetic words: "We have come too late."

In part, he was apologising, but he was making the more important point that Deng and other elderly revolutionaries had won control of the country's fate. Zhao's visit is now cited as one of Zhao's "anti-party" activities.

It came as no surprise that Li Xianlan, the former president and the conservative leader of another informal advisory body, condemned the "very small number of people who plotted behind the scenes, fabricated rumours, instigated agitation and deliberately aggravated the situation."

Apart from staff in Zhao's office, that "small number of people" include his former secretary, Bao Tong, now the head of a political research institute which the elders have labelled as "counter-revolutionary."

Bao is blamed for inciting the students by leaking internal documents damaging to Li Peng and Deng Xiaoping, and for acting as a campaign manager for Zhao Ziyang.

One leaked document which incensed Deng and is blamed on Bao gave a point-by-point description of the arguments between Zhao and conservative leaders.

For the moment, the political struggle is nearing settlement, but the military infighting remains a volatile variable.

Continued on Page 20
Satisfying the urge for political change, Page 19

US trade policies under attack

By Peter Norman, Economics Correspondent

THE MAIN trading partners of the US are expected to launch a bitter attack on the country's trading policies and call into question Washington's commitment in the battle against inflation at top-level meetings in Paris this week.

The foreign, trade and finance ministers of the 24-nation Organisation for Economic Co-operation and Development tomorrow begin their annual ministerial meeting under the shadow of last week's US Super 301 decisions which singled out Japan for supposedly unfair trade practices under

last year's US Trade Act. Japan is the only OECD member state to have been accorded such treatment. The other two named countries being Brazil and India. However, the US decision to put four European Community countries - Italy, Greece, Spain and Portugal - on a special watch list for possible future action in the intellectual property area has propelled the Super 301 issue to the top of the agenda.

The idea that the US should resort to bilateral negotiations with supposedly unfair traders

under the Trade Act has raised fears that the multilateral trading system and the rules of the General Agreement on Tariffs and Trade could be undermined.

Throughout the 1970s and 1980s, the industrialised countries that form the OECD consistently declared that their interests were best served by the maintenance of multilateral trade and support of Gatt.

Not for the first time, however, many of the USA's trading partners see a fragile element of world economic co-operation threatened by the OECD's

most important member country.

Because Super 301 decisions provide for three years of bilateral negotiations between the US and offending trading partners, it is feared that they could become a running sore in international trade relations with the ever present threat of encouraging the US Congress to increased protectionism.

Last week, Mr David de Fury, Switzerland's chief trade negotiator, said he feared that the Uruguay Round of multi-lateral trade negotiations, while attempting to build an alliance of retired, aged leaders

Public forces deputies to yield Supreme Soviet seat to Yeltsin

By Quentin Pool and Edward Morfimer in Moscow

THE SOVIET Congress of People's Deputies bowed to popular anger last night and elected Mr Boris Yeltsin to a seat in the new Supreme Soviet, reversing a decision taken only two days earlier.

All weekend, the newly-elected deputies had been inundated with telephone calls and cables, in Moscow especially but also from across the country, expressing dismay and confusion at the apparent determination of a majority in the Congress to stick to its old ideas and methods in debating and electing its officials.

The volte-face followed another stormy day in the Soviet assembly hall. Mr Mikhail Gorbachev facing angry criticism from reformers for his chairmanship, and the Communist Party bureaucracy, including the ruling Politburo and the KGB, coming in for outspoken attacks.

Failure to elect Mr Yeltsin, who won a landslide victory in the Soviet capital two months ago, and other Moscow-based

radicals, to the Supreme Soviet, the country's new full-time parliament, was the key issue which threatened to trigger a popular revolt.

The former Moscow Communist Party chief, who won more than 6m votes in the election in spite of a hostile campaign by his former party colleagues, got the largest number of negative votes in the Congress on Saturday.

His demise was denounced at rallies in Moscow on Saturday and Sunday, and supporters called for a protest strike in the capital today.

Yet the obvious embarrassment of Mr Gorbachev and the party leadership was saved by the decision of a successful candidate to the Supreme Soviet - Mr Alexei Kazannick, from the Siberian city of Omsk - to withdraw in Mr Yeltsin's favour.

"Dissatisfaction with the election of the Supreme Soviet was mounting, and by tomorrow the consequences might have been unpredictable," Mr

Yeltsin said.

"This indicates that the Congress is becoming more democratic and if this line continues there are more and more hopes that it will justify the aspirations linked with it."

Thousands of supporters were gathered last night in Moscow's Pushkin Square for an impromptu, and unsanctioned, demonstration in support of their hero.

The latest development followed a day of fresh revelations and a stormy battle over the election of Mr Gorbachev's close friend and nominee, Mr Anatoly Lukyanov, to be his first deputy president in the new parliament.

His confirmation only came after attacks from both progressives and nationalists for his shoddy organisation of the Congress and his part in approving what they called anti-democratic legislation on demonstrations and crimes against the state.

CONTENTS

Interview	Martin Sorrell, chief executive of WPP Group, found his unflappability served him well in his competition bid for the Ogilvy Group, the world's fifth-largest advertising agency. Page 44
Middle East	Damascus-Baghdad rivalry lets Lebanese bleed. Page 7
Management	Why product pricing is an arbitrary decision for too many companies. Page 15
Editorial comment	Judge and jury; Ireland's good two years. Page 18
Politics in the East	Differing approaches of Chinese and Soviet party leaders. Page 19
Law	The decline of the baby boomers; UK merchant banks; OI; UK brewing. Page 20
Personal computers	Toshiba takes off for the Sun. Page 21
Survivors	Egypt. Page 27-29
Stock Markets	40-43
Wall Street	Closed
London	40-41
Gilt	40-41
UK Stocks	40-41
Unit Trusts	38-39
Weather	38-39
Overseas	2-7
Companies	25-34
Currencies	10-14
Editorial Comment	15
Financial Diary	18
Management Page	20
Money Markets	22-23
International Bonds	22-23
Observer	23-24
World Guide	17
Int.Capital Markets	23-24

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THE NATO SUMMIT

Bush plan for arms cuts gives West the initiative

By David White in Brussels

THE BUSH PLAN for cuts in conventional forces — more far-reaching than expected and involving a one-fifth reduction in US troop strength in Europe — manages to kill three birds with one stone:

1. It takes the US and its allies off the defensive in the initiative battle that began when Mr Mikhail Gorbachev announced deep cuts in Soviet manpower and armour at the United Nations in December. Nato has been pinned in its corner ever since.
2. It provides President Bush with a convenient way of appeasing Congress, where pressure has been mounting to cut back on the cost to the US of European defence.
3. As a by-product, it gives a signal to the West Germans and other Continental allies that, if the need for US nuclear warheads is open to question, then US troop levels in Europe are not sacrosanct either.

The initiative and the allies' positive reaction to it mark a change of context since the last Nato summit in March last year, which started clearly that the US presence "must and will be maintained."

West Germany, where the bulk of US service personnel — some 245,000 — are based, warmly greeted the initiative. But a Bonn government spokesman, said the Soviet Union would have to go a long way towards reducing its strength before the substance of the US presence could be called into question.

Chancellor Helmut Kohl went out of his way at the summit to thank "our American friends" for their commitment. The US military presence, he told Allied leaders, would remain indispensable for Europe, as well as for the US itself.

The US plan takes the challenge of the Conventional Armed Forces in Europe (CFE) negotiations by the horns, by proposing an ultra-rapid agreement — six months to one year — and reductions by 1992-93. This is four years ahead of the deadline the Warsaw Pact has proposed.

It also makes an about-turn on previous Nato policy by agreeing to include air power — land-based combat aircraft and helicopters — in the talks. The target would be 15 per cent below current Nato levels, which by Nato's own figures, stand at 4,500 combat aircraft and 2,600 helicopters. This compares, again by Nato's reckoning, with Warsaw Pact totals of 8,250 and 3,700. The Warsaw Pact has proposed reducing numbers to 1,500 "strike" aircraft (excluding air defence fighters) and 1,700 combat helicopters. It also wants to cut Nato strength in carrier-based aircraft.

Up to now, Nato has argued that difficulties in counting and defining these weapons would bog down progress in other key areas.

Under the Bush proposals, future cuts in tanks, artillery and armoured troop carriers — the core of any potential invasion force — would still have to be agreed first. But the proposal eases the way for agreement by bridging the remaining gap on target numbers in these categories. Ceilings for artillery pieces would be from 16,500 (the Nato target) to 24,000 (the Warsaw Pact target), "depending on the resolution of definitional questions."

The latest Warsaw Pact proposals coincided with Nato's own figures of 20,000 tanks for each side — a two-thirds cut for the Pact — and 28,000 troop carriers.

President Bush, strongly backed by Mrs Margaret Thatcher, the British Prime Minister, insisted that the equipment should be not only withdrawn but destroyed, to stop Soviet equipment being massed behind the Ural mountains.

The third important switch in US policy is to bring troop levels into the discussions, proposing that the Soviet Union match a reduced US level of 275,000 troops on foreign postings in Europe.

This would be a 19 per cent reduction on the current total of 340,000 US service personnel, including those assigned to the Sixth Fleet in the Mediterranean. The US says Moscow has 600,000 troops in Eastern Europe. Up to now the only troop proposals had come from the Warsaw Pact, suggesting a mutual limit of 350,000 stationed in Europe outside national boundaries.

The proposed US cut follows repeated demands in Congress to limit US spending on European defence, reckoned to be at least \$100bn and by some estimates \$160bn, out of a \$300bn annual US defence budget.

These demands have recently focused on withdrawal of troops assigned to US intermediate-range missile bases, which are being eliminated under the 1987 INF treaty: some 9,000 for Pershing-2 missiles and 16,000 for Cruise missiles.

The figure can easily be brought up to 30,000 by including air force personnel attached to the US base at Torrejon, near Madrid, where the 401st Tactical Fighter Wing of nuclear-capable F-16 fighters is due in any case to move out.

The fighter wing has been cited as an obvious sacrifice the US could make.

President goes onto offensive

By Peter Riddell in Brussels

PRESIDENT GEORGE BUSH could hardly hide his glee yesterday when he emerged from the Nato summit to tell reporters about his new conventional arms proposal.

Adopting his gung-ho ex-Yale baseball captain's style, he exclaimed: "Here we go now, on the offensive."

Mr Bush's exhilaration is understandable since he feels that at last the US has captured the initiative not only within the Western alliance but also from the Soviet Union. For all his denials of being engaged in a public relations battle, the president said his plan was intended to challenge Mr Mikhail Gorbachev and put him to the test.

Mr Bush's excitement reflects the speed with which the plan has been put together. With talks on conventional force reductions having started in Vienna as recently as March 9, the administration had believed it would be premature to make a radical revision so soon, despite detailed reservations.

But the pressure of events forced a change, only agreed in principle when the president met his defence and foreign policy advisers in Marine 10 days ago. Only then, the Defence Department presented ideas on conventional arms. Details only began to leak out as he left Washington for Rome.

Domestically, the president has been stung by criticism he is being too reactive at a time of major changes. Internationally, he has been faced by the probability that divisions within the alliance would dominate the summit and mar his first trip to Europe as president. Then came the Soviet acceptance of the general Western negotiating position.

UK, W Germany soften positions on SNF

By Robert Maudfrier, Diplomatic Correspondent

BOTH BRITAIN and West Germany yesterday softened their positions on the controversial subject of short-range nuclear weapons in Europe and appeared to be preparing the way to a possible compromise.

It was still not clear, however, whether an agreement could be reached during the two-day Nato summit meeting here.

Mrs Margaret Thatcher, the British Prime Minister, made clear that, on certain well-defined conditions, she was prepared eventually to envisage negotiations on the reduction of short-range nuclear forces (SNF), as proposed by the Soviet Union and West Germany.

Only one or two weeks ago, Mrs Thatcher was adamant that Britain would not accept the German demand for early negotiations with the Soviet Union on the reduction of SNF. "The Eastern superiority that we continue to face must be countered by means of military forces that reliably prevent any war, be it nuclear or conventional," she said. "We thus need, today and for the foreseeable future, an appropriate mix of conventional nuclear forces that are kept effective and in the requisite state."

That declaration seemed to recognise that any negotiations with the Soviet Union on SNF must leave some of these tactical nuclear weapons in place in Europe, at least in the short term. Mr Kohl also appeared to accept, in his statement that nuclear forces "must be kept effective and in a requisite state", that they must be modernised sooner or later, even if a final decision to manufacture and deploy them has been put off until 1992, under an earlier decision by Nato's defence

high-level working group should be set up to try to find a formula that would bridge the gap between the US and Britain, on the one side, and West Germany on the other. Mrs Thatcher had conceded at least that negotiations on reducing SNF could take place in principle if certain conditions were fulfilled.

The search for a compromise thus concentrated on whether the Germans were prepared to accept a formula which ruled out the complete abolition of SNF.

Mr Helmut Kohl, the West German Chancellor, also adopted a more flexible stance, which could open the door to a compromise. Mr Kohl had said, in a radio interview on the eve of the Nato meeting, that a third zero was conceivable in the abstract, but he appeared to rule it out in his opening speech at the summit on SNF. "The Eastern superiority that we continue to face must be countered by means of military forces that reliably prevent any war, be it nuclear or conventional," he said. "We thus need, today and for the foreseeable future, an appropriate mix of conventional nuclear forces that are kept effective and in the requisite state."

That declaration seemed to recognise that any negotiations with the Soviet Union on SNF must leave some of these tactical nuclear weapons in place in Europe, at least in the short term. Mr Kohl also appeared to accept, in his statement that nuclear forces "must be kept effective and in a requisite state", that they must be modernised sooner or later, even if a final decision to manufacture and deploy them has been put off until 1992, under an earlier decision by Nato's defence

Diplomats at Vienna talks surprised

By Judy Dempsey in Vienna

NATO diplomats at the Vienna negotiations on Conventional Forces in Europe (CFE) were yesterday "very surprised" following new proposals made by President Bush at the Nato summit in Brussels for reducing conventional weapons.

At the same time, initial reactions by the Warsaw Pact to his unexpected proposals were welcomed.

Mr Bush's proposals go beyond those presented by Nato at the CFE talks last March, which envisaged discussing three categories of weapons in the early phases of the CFE negotiations. These include tanks, artillery and armoured troop carriers.

But yesterday, in what seems to be an attempt both to speed up the CFE talks and for Nato to regain the initiative, Mr Bush's proposals were more than willing to discuss three extra categories.

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FINANCIAL TIMES
 EUROPE'S BUSINESS NEWS PAPER

OVERSEAS NEWS

Euro-election may determine Kohl's fate

Poll will serve as a test of the Bonn coalition's fortunes, David Marsh reports

WEST GERMAN voters in next month's European elections will have a hand not only in choosing the next Strasbourg parliament but in deciding how long Chancellor Helmut Kohl will remain in office.

With West Germany's ardour about Western Europe now considerably cooler than in the 1970s, the poll will serve above all as a test for the fortunes of the centre-right Bonn coalition.

After a string of regional election setbacks in the past two years for the ruling Christian Democrats, another bad result for Mr Kohl would trigger a firm move on the right to unseat him before the next general election in December 1990.

On balance, however, barring a disaster of unforeseen proportions on June 18, Mr Kohl seems likely to slogan on to the September 1990 task.

After being regarded for years as European-minded people, the West Germans are taking an increasingly grudging view of the Community. Impatience, too, has come to the surface. The electoral turnout will serve as the best indicator of new German lack of interest in Europe. The turnout, 65 per cent in 1979 and 56.8 per cent in 1984, is widely expected to fall further, but may be increased by simultaneous municipal elections in the

Saxland and Rhineland-Palatinate on the same day.

The election poster of the main parties are enlivened only by a new liking for below-the-belt polemics with rivals. The campaign slogan for the Christian Democrats strikes a fresh note by assuring voters that Mr Kohl guarantees policies "in the German interest".

For most of the three decades since the signing of the Treaty of Rome, it could be taken for granted that German and Western European interests coincided. Now, after German restiveness about EC policies on beer purity, the environment, regional support, industrial composition and social legislation, this is no longer an automatic assumption. Like all other members, West Germany, the Community's principal paymaster, has to assure voters it is getting value for money.

Christian Democrat officials admit their more aggressive slogan has been prompted partly by the advocacy of "German first" by far-right groupings.

Under its leader, Mr Gerhard Frey, the German National Union is mounting a watershed campaign for the June poll.

The ultra-right is trying to feed on popular unease about growing German payments to Brussels. Under last year's

Brussels package on financing programmes aimed to accompany the 1992 Single Market, the Federal Republic's annual budgetary contributions are expected to rise by 1992 to around DM26bn from DM18bn last year.

EUROPEAN ELECTIONS



The West Germans are worried their high standards in areas ranging from air pollution to labour-management co-operation will be watered down by European harmonisation.

In European monetary collaboration, Bonn is adopting a cautious stance in spite of the enthusiasm for monetary union of Mr Hans-Dietrich Genscher, the Foreign Minister. The popular worry appears to be that hard-won German stability will be frittered away by too much consorting with the poorer and less inflation-minded states of southern

Europe.

German reservations about the post-1992 programme are underlined in the latest opinion polls sponsored by the European Commission. Based on surveys at the end of 1988 throughout the Community, they show that only 10 per cent of Germans said they viewed "very hopefully" the 1992 date. This compared with 19 per cent for the replies of all member countries.

The proportion of Germans saying they thought their country benefited from Community membership was 55 per cent. Only three other members - Denmark (64 per cent), the UK (47 per cent) and Spain (27 per cent) - had lower scores. The proportions saying they thought their countries gained from the Community were 79 per cent in Ireland, 75 per cent in Italy, 69 per cent in Portugal, 68 per cent in the Netherlands and Greece, 67 per cent in Luxembourg, 64 per cent in Belgium and 58 per cent in France. The German reticence takes little account of the nearly two thirds of the Federal Republic's foreign trade surplus of DM128bn last year which came from trade with the other 11 members of the Community.

The far right is treating the elections as a dress rehearsal for December 1990. Signs are that the movement is at last

being seriously treated by the media.

One Bonn cabinet minister regrets that right wing sympathisers on their way to election rallies step through a barrage of abuse from "anti-Fascist" demonstrators. Their electoral importance lies less in whether or not the German ultras succeed in winning parliamentary representation in Strasbourg, far more in how many votes they steal from the mainstream parties on the right.

The Christian Democrats and their Bavarian partner, the Christian Social Union, are trailing in the opinion polls with about 36 per cent support from the electorate, against 40 per cent for the opposition Social Democrats. This compares with the 44 per cent gained by the right in the January 1987 general election, when the Social Democrats scored only 37 per cent.

Fundists recall that the electoral showing of the far right National Democratic Party - even though it failed to win the 5 per cent necessary to propel it into the Bundestag - was crucial in ejecting the Christian Democrats from 20 years of power at the federal level in the general elections of 1969. On election night of June 18, the voters will be thinking less about Brussels in 1993, far more about Bonn in 1991.

For Länder, Brussels poses both threat and opportunity

By David Goodhart in Bonn

WEST Germany's 11 Länder (states) have always had their reservations about the EC. Despite enormous sovereign power within the Federal Republic they are simply ignored by EC Law which recognises only unitary states.

This has meant the Federal Government usurping many Länder powers, for example in education or cultural matters, in its dealings with Brussels.

The Länder have clawed back some rights to information and consultation from Bonn and have become adept at lobbying Brussels directly when they feel their interests are seriously threatened.

Mr Lothar Späth, Prime Minister of Baden-Württemberg, even enthuses about a "Europe of Regions".

His fast-growth region has set up special relationships with Rhone-Alpes (France), Lombardy (Italy) and Catalonia (Spain) which he calls the "four motors of Europe".

He says that all four regions are still too geared towards supporting old industries like coal, steel and agriculture, and not enough towards things like linking universities to industry.

This is not merely altruistic high-tech thinking, regions

qualify for more R&D support from EC if they link in with others across national borders.

But from most Länder capitals, the EC has been seen as much of a threat as an opportunity, particularly since Brussels developed an interest in competition policy.

The Competition Directorate has been snooping around not only in Germany's national regional aid programme (drawn up and paid for by Länder and Federal Government) but also in the Länder's own supplementary funds.

Last year's so-called Bangemann-Sutherland compromise (named after the former Bonn Economics Minister and Brussels Competition Commissioner) was meant to reduce from 46 per cent to 38 per cent the proportion of the population living in areas qualifying for regional aid.

According to one exasperated Competition official in Brussels the fierce resistance of the Länder has kept the figure over 40 per cent.

These "European" issues will have virtually no effect on this month's European election but the running battles between the Länder and Brussels may well have contributed to a national cooling-off towards the EC.

The impact of EC initiatives is usually more mixed than the Laender let on. Take the case of Essen, the old industrial town on the Ruhr.

Being in a major coal-producing area, Essen will suffer from the EC's proposal to ban subsidies to the coal industry by 1993.

But that does not automatically crank-up hostility to the EC when the local Social Democrat politicians concentrate on blaming the Christian Democrats in Bonn for failing to stand up to Brussels.

On the positive side, EC enthusiasts in Essen point to the fact that the town has just been granted Objective 2 status by the EC's European Regional Development Fund.

That means it classifies as an area of industrial decline requiring help.

However, Essen has recently stopped being covered by either national or Länder regional aid. This creates a complication.

Essen will receive no EC aid unless it also qualifies for aid within Germany but to put it back on the national list would further breach the 38 per cent compromise.

Some European issues will never make the staff of election campaigns.

European go-ahead for new Boeing jet

By Raymond Snoddy

EUROPEAN aviation authorities have cleared the new long-range Boeing jumbo jet for commercial service while a programme of modifications is carried out.

The agreement has been reached following talks in Paris last week between Boeing and the aviation authorities of four countries - the UK, West Germany, France and the Netherlands - which have been pressing for improvements to the design of the 747-400.

The compromise means that the four European airlines which have ordered 747-400s, British Airways, Air France, Lufthansa and KLM Royal Dutch Airlines, will now be able to introduce the new aircraft on scheduled services this summer.

Boeing, the Seattle-based manufacturer, said in a statement yesterday that it had agreed to continue working with the European authorities to develop what it called satisfactory design and testing solutions to meet their requirements.

"In turn, the European authorities have agreed to accept 747-400s for commercial service from their respective airlines," Boeing said.

Britain's Civil Aviation Authority confirmed yesterday it was satisfied with the arrangement reached with Boeing regarding modifications to the building standard of the aircraft.

The Authority would in turn proceed with the certification of the 747-400 for introduction into UK service this summer.

British Airways has ordered 19 of the aircraft, which have a range of 8,000 miles without refuelling, at a cost of more than \$2bn.

The first BA aircraft is due

to make its maiden flight today at Everett, the Boeing production centre in Washington state, in preparation for delivery at the end of June.

The group of European aviation authorities warned Boeing some months ago the 747-400 did not meet their latest safety standards and that airworthiness certificates might be withheld "until" changes were agreed.

Since the Turkish Airlines DC-10 crash in Paris in 1980, when a cargo door failed leading to decompression, the collapse of a flight floor and the severing of control wires, European aviation authorities have insisted on improved standards for new aircraft. They include strengthened upper deck flooring and greater separation of control wiring.

Boeing regards the 747-400 as a "derivative" of existing jumbos and therefore not a new aircraft automatically subject to the latest European safety standards. The 747-400 which has longer wings than existing jumbos will carry 410 passengers and be able to fly all the world's major air routes non-stop with the exception of northern Europe to Australia.

The 747-400 has already received airworthiness certification from the Federal Aviation Authority in the US and is already in service with North West Airlines of the US and Singapore Airlines.

Today Singapore Airlines launches the first scheduled 747-400 service into London's Heathrow Airport - a non-stop service that should take 13 hours - one hour 50 minutes less than the current service.

Together the four European nations have ordered a total of 55 aircraft, about one quarter of Boeing's order book.

Telecom link planned to test advanced projects

By Hugo Dixon

THE telecommunications administrations from 13 European countries have agreed to set up a special network for testing advanced communications applications - which require transmitting huge amounts of information.

The sorts of applications which might be tested include facilities for foreign exchange dealers to see moving pictures of each other while trading electronically; for experts to diagnose faults in aircraft from remote locations; and for doctors to examine patients' x-rays over a telecommunications link.

The trial will help Europe's telecommunications operators decide whether there is sufficient demand for advanced applications and whether they should invest in fully fledged networks. The total cost of establishing advanced networks across Europe would be

over Ecu100bn (£68bn).

The trial network, called the European Broadband Interconnection Trial (Ebit) will be capable of switching traffic at two megabits a second, about 30 times the current speed. Although the operators' present networks are not designed to cope with such a load, they believe it can be done by improvising.

The Ebit network is designed to run in parallel with the European Commission's Race programme, which is pioneering into advanced communications. The idea is that applications developed in Race would be tried out on Ebit.

The 13 countries which last month signed a memorandum of understanding to establish Ebit are Belgium, Denmark, Finland, France, West Germany, Ireland, Italy, Netherlands, Portugal, Spain, Sweden, Switzerland and the UK.

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WORLD ECONOMIC INDICATORS				
RETAIL PRICES (1985=100)				
	Apr. '89	Mar. '89	Feb. '89	Apr. '88
W. Germany	104.9	104.3	104.2	101.2
France	114.1	114.2	113.3	110.9
Italy	123.0	122.2	121.6	115.3
Netherlands	100.9	100.5	100.1	99.3
Belgium	109.4	108.6	108.4	106.2
UK	125.3	125.1	124.7	121.0
USA	116.7	115.9	115.3	111.0
Japan	104.9	103.5	102.6	102.2

% change over previous year

Source: (except UK) Eurostat

AT SHERATON LITTLE THINGS MEAN A LOT

OVERSEAS NEWS

Bulgaria expels 300 ethnic Turks

By Jim Bodgener in Ankara

ABOUT 300 ethnic Turks arrived in Istanbul at the weekend after being expelled from Bulgaria. Their ejection followed attacks a week before on Turkish ethnic protesters by the Bulgarian police and army, which left an unknown number of the protesters dead and injured.

The refugees included prominent members of the two Bulgarian Turkish movements, the Democratic Union and the Independent Civil Rights Defence Association. These have sprung up in protest against the campaign since 1984 by Bulgaria to force its 1.5m-strong Turkish minority to renounce its ethnic rights.

The refugees corroborated reports that several demonstrators had died. Tanks were driven into a peaceful protest march on May 29, in the town of Kozlevo, and the marchers were clubbed with rifle butts, according to Mr Alatin Sadik Memedoglu, who was a provincial leader of the Independent Civil Rights Defence Association. One demonstrator died, and up to 30 were injured, he said.

Silent majority dominates Soviet Congress

By Quentin Peel in Moscow

THE SOVIET Congress of People's Deputies, President Mikhail Gorbachev's attempt to insert some popular democracy into the Communist system in his country, revealed itself in its true colours this weekend.

Its decisions are decided by a huge, usually silent conservative majority, which dominates the public debate, although members were occasionally stirred into fury by a highly articulate, progressive minority.

The decision to reject Mr Boris Yeltsin, the man with the biggest popular mandate in the country, and a string of Moscow radicals, for positions in the Supreme Soviet, showed that the writing was on the wall.

The change of heart yesterday, whereby another seat for Mr Yeltsin was found when Mr Gorbachev said that was a good idea, showed just how docile the majority remains.

Suddenly the old labels of Bolshevik and Menshevik - the majority group and the minority group - look like coming back into vogue. Dr Yuri Afanasyev, the historian and arch-reformer, described the two sides, in a passionate outburst on Saturday, as the "democratic minority", condemned to a subordinate role, and "the aggressive, subservient majority".



Anatoly Lukyanov makes a point for the Soviet conservatives

are very real. Dr Afanasyev brought all the radicals in the assembly to their feet when he denounced the new parliament as a "Stalinist-Brezhnevite Supreme Soviet" - in style, if not in actual personalities.

Mr Gorbachev himself steers an unsteady middle course between the two, giving the radicals their platform, but allowing the party's lobby funder to dictate the results.

The result is an extraordinary combination of unprecedented outspokenness from the radicals - and truculent interventions, rude heckling, combined with traditional eulogies

of the top party leaders, from the majority. On Saturday, it seemed as though the old-style majority had finally overstepped the mark when, in full view of an enormous television audience, it rejected Mr Yeltsin, the man with a popular mandate from more than 6m Muscovites, for a seat in the new Supreme Soviet.

Candidate after candidate from the party apparatus was approved by the same, old 3,000-odd votes in favour, with a handful against. Only the outspoken progressives - Mr Yeltsin and a string of others from Moscow - were roundly

defeated. Every one who had spoken out at the congress was savaged in the poll.

In truth, the Moscow radicals had committed political suicide in the cause of democracy, when they decided to present 55 candidates for 29 seats, while every other group in the country nominated almost exactly the right number of names for seats available.

As for Mr Yeltsin, his demise seemed quite clearly designed by the party apparatus. The Russian Federation, with 11 seats to fill in the new Soviet of Nationalities, allowed 12 names to go forward, just enough for the former Moscow party chief to get the chop. He came bottom of the poll, with 364 votes against him. The only consolation was that second bottom - with 781 negative votes - was the only Politburo member of the listed dozen, Mr Vitaly Vorotnikov.

Those election results appeared to fly in the face of the whole new electoral trend in the Soviet Union, party functionaries having been defeated in the popular vote across the country earlier this year, and radicals such as Mr Yeltsin and his colleagues, having triumphed in the big cities of Moscow, Leningrad and Kiev against the party machine.

The result of the vote in Congress became swiftly apparent as the weekend wore on. First a demonstration by 5,000 people outside the Luzhniki Stadium in Moscow on Saturday night, followed by another of about 50,000 on Sunday night. For the first time, Mr Gorbachev himself came in for some savage criticism. "A majority of the people backs a minority in the congress," the banners cried.

Most worrying for the deputies themselves, however, was a flood of telegrams and telephone calls from across the country, where Mr Yeltsin - albeit undeservedly maybe - has become a symbol for opposition to party privilege and bureaucracy.

"The people are not happy with the work we are doing," Mr Yuri Barashkov, from Archangelsk, declared. "The outcome of the secret ballot for the Supreme Soviet was not met by full understanding," a deputy from Donetsk declared, by way of a significant understatement.

That was when Mr Alexei Kazunick from Omsk stepped in to save the day - offering to give up his seat in the new standing parliament, the Supreme Soviet, for Mr Yeltsin - and Mr Gorbachev approved.

Even so, most of the Moscow progressives and their supporters - a growing but solitary group - remain out in the cold.

Polish minister aims to harvest farmers' votes

By Christopher Bobinski, recently in Lomza

THE LUSH green farming country of Lomza is one of the few places where the Polish authorities have a chance of winning points in the country's June 4 parliamentary elections.

It is here in an overwhelmingly rural district that Mr Dominic Jastrzebski, the dynamic 47-year-old Foreign Trade Minister, is challenging Solidarity candidates in the free elections for the Senate. Should he fail, the future of the Government could come into question.

Mr Jastrzebski is indeed running as if his job depended on it and he has been spending four days a week away from his ministry seeking to convince Lomza's 240,000 voters he is worth backing.

He comes from peasant stock and was born in a small village a few miles from Lomza. "Ninety-five per cent of my family still live here," he tells meetings after driving up in his blue Mercedes.

It's a point which could pick up votes at polls, especially as the provinces in these elections are looking critically at the candidates' backgrounds for links with the constituencies in which they are standing.

His Solidarity opponents, Mr Lech Kozol, a local lawyer, and Mr Richard Reiss, a Catholic politician from Warsaw, are riddled with what Mr Jastrzebski has the right to brag is also promising to bring prosperity to his home province.

"I am Lomza's chance for the future," he promises, like the Western politicians he identifies with and was able to observe when he worked in London for six years in the late 70s in a Polish timber trading company.

But for the voters he embodies 44 years of misrule by the party and he knows he is battling against the tide. He says: "I wanted to do this to see if I could break the wave of feeling against us and win a free election."

Mr Jastrzebski also wants to win as he seems to assume that only those politicians who can win elections will count for much in the party from now on. At times it even looks as if he wants to build a political base for himself in Lomza free of party constraints.

The Solidarity opponents in the province have the party against them and, telling him about local issues and grievances before he goes to meetings.

But there is the Catholic Church. "If the Catholic Church wasn't backing Solidarity up to the hilt, they'd get no more than 20-30 per cent," he said bitterly of the 66 parishes in the constituency.

Mr Jastrzebski does admit though to his membership of the Communist Party at meetings but there is little trace of socialist ideology and more than a dash of right-wing appeal in his speeches.

Wherever he goes, the minister is telling the farmers of Lomza, where 96 per cent of the land is in private hands, that they should look to the private sector and not to the Government to solve their everyday problems.

The road to prosperity for the province, the minister repeats, is through private food processing business and export through joint ventures with Western capital. Indeed he is promising to arrange multi-million dollar credits from Italy for the district and a trade mission from Lomza is due in Rome this week.

The line is leading to accusations from Solidarity that he is using his position as Trade Minister to favour one province.

He is also coming under attack for being fascinated by the West. "Mr Jastrzebski has seen something in the West and that's what he saw," Mr Richard Kranewald, a farmers' Solidarity candidate for parliament in Lomza, told the parishioners of Mjastkowo at a meeting in the churchyard after a Corpus Christi service.

"He wants to make mere farm labourers and servants out of us," Mr Kranewald warned.

But Lomza is ripe for development. The average size of the farms in the province is 12 hectares - large by Polish standards. Many locals have also worked in the West and dollar savings are high, potentially providing the capital which Mr Jastrzebski wants to mobilise to rebuild the private service infrastructure. Polish farming needs it if it is to modernise.

Mr Jastrzebski's campaign is the more modern one with its promise of concrete improvements in the not too distant future. It stands a chance of success. But he could be misunderstood by the electorate.

He is a more easily identifiable figure than Solidarity's restoration of self-remembered past wrongs, resentment against the authorities and almost religious references to a better future.

Argentine currency rate frozen

By Gary Mead in Buenos Aires

PRESIDENT Raul Alfonsín of Argentina has announced a series of emergency economic measures, including a return to a single exchange rate fixed and regulated by the government.

In the middle of a growing crisis of confidence and stability, the president, who has just over six months left in office, made a national broadcast on television and radio late on Sunday, the third such direct appeal this month. In his half-hour speech he accused unnamed individuals of financial "speculation" and said the country's present crisis was due to their unprofitable behaviour.

He said his government has decided to return to a fixed exchange rate, after less than one month of a free-floating rate, as part of a package intended to stabilise the economy.

Other measures include export duties of 20 per cent for industrial goods and 30 per cent for agricultural products; a 4 per cent tax on the first

sale of agricultural land; suspension of all state-financed public works; threats of legal action against price "speculation"; further increases in public service tariffs (following an average 40 per cent increase this month); and a six month suspension of tax-relief schemes for industrial promotion.

Mr Alfonsín added that a new set of tax laws will be sent to Congress for approval this week.

The emergency measures come at one of the lowest points in Argentina's economy this century. Inflation this month is likely to exceed 70 per cent and the currency, the austral, has slid since January from 18 to the dollar to 220, a week ago, when trading was frozen by government decree.

The decision to fix exchange rates is likely to see the resurgence of black market trading in foreign currency, despite the president's promise to enforce legal action against such trading, now illicit.

Indian dailies claim report on submarines 'suppressed'

By K.K. Sharma in New Delhi

DETAILS claiming suppression of a damaging report of a parliamentary committee which inquired into alleged irregularities in the purchase of German submarines for the Indian Navy were published in the Indian Express and The Statesman over the weekend.

The disclosures are expected to provide fresh ammunition to opponents of Mr Rajiv Gandhi, India's Prime Minister, who has faced attacks based on allegations concerning pay-offs in defence deals to friends and associates.

In the unpublished draft report, Parliament's Public Accounts Committee concluded that the recommendations of the Ministry of Defence and the Indian Cabinet to buy four West German submarines - in preference to an

offer from Kockum, a Swedish company - were based on considerations "other than technical and financial evaluation" of the submarines.

The draft report said that the choice of the submarines was prompted by an "outrageous mistake in financial evaluation against the interest of the country, due to which selection could not be made on proper material."

Although the contract for the submarines was signed during the prime ministry of the late Mrs Indira Gandhi, mother of Mr Rajiv Gandhi, the controversy exploded when Mr V.P. Singh resigned in 1987 as Defence Minister following criticism of his decision to inquire into commissions that had allegedly been paid for the submarines.



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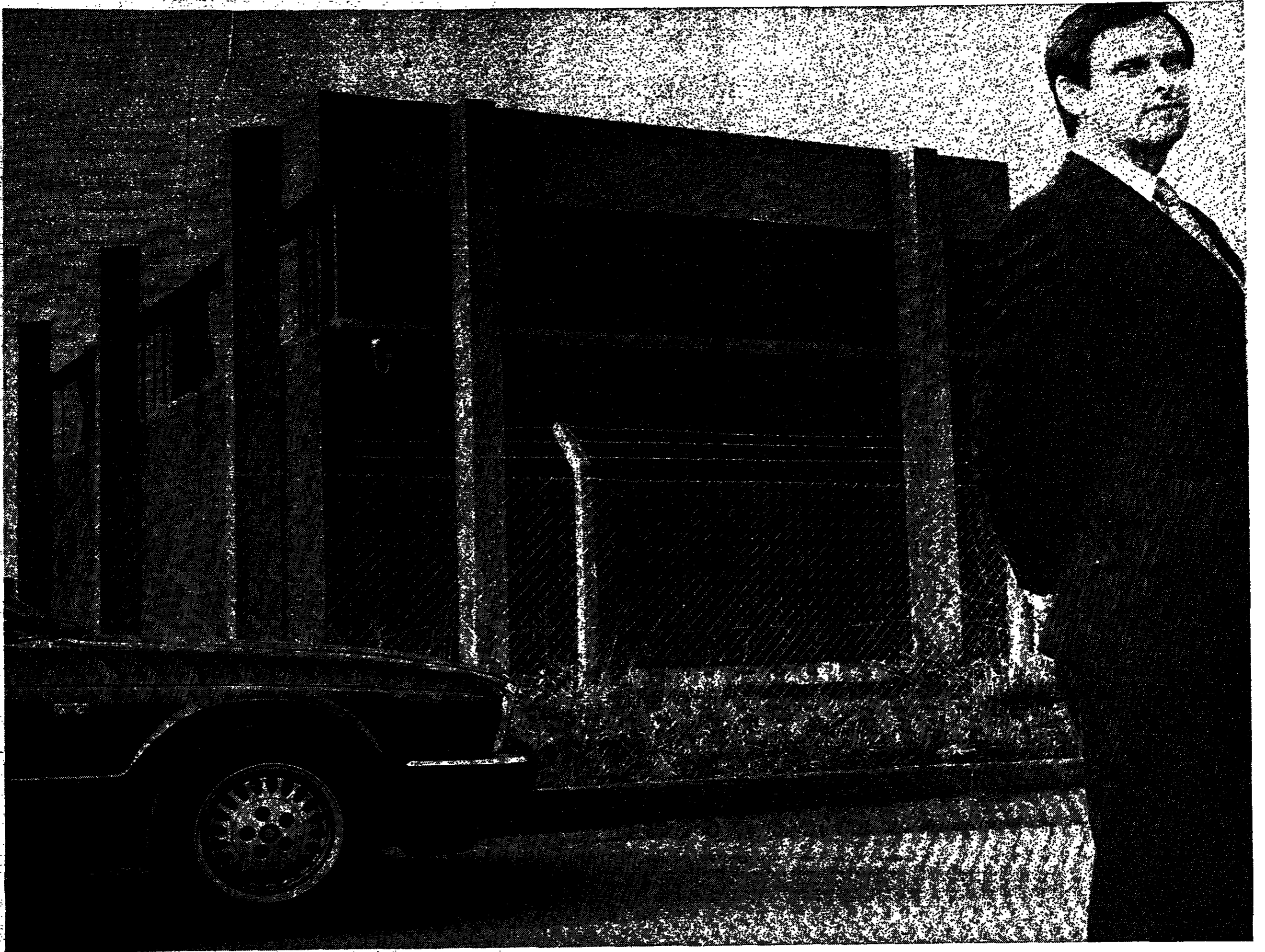
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Fearful China could face military dictatorship

By Colina MacDougal

FEAR has gripped China in the wake of the astonishingly liberalised student movement of the past six weeks as intellectuals, journalists, artists and other supporters await the retribution that seems certain to follow.

Peking's geriatric leaders, clinging to their Maoist Deng Xiaoping and fearful of losing power, have emerged as one to vote against repression. They are determined to preserve China as their own estate, as one student said in Peking's Tiananmen Square a week ago.

The mood in Peking has switched from the hope that change to a more liberal society might be effected by popular power to the recognition that a greedy and ambitious Communist Party which controls both the army and the press can scarcely be defeated. "At least the students have learned about the real world," said one Chinese professor sadly.

While Zhao Ziyang, the party general secretary, and other relative liberals such as Vice Premier Tian Jiyuan, have not yet been given the final word of grace, it is probably just a matter of time before the party dinosaurs disintegrate.

For nearly 100 years thoughtful Chinese have been trying to bring some kind of modernisation to their ancient but impoverished culture. Today the party elders are playing the role of the aged emperor dowager of the late 19th century, who executed as many modernisers as she could catch in order to preserve her own position. Since then, China has

fallen prey to a series of warlords, generals and other charismatic leaders, all of whom in the last resort despoiled the country to satisfy their own greed for power.

In the student clampdown, China's student leaders — among the brightest and best at the country's universities — seem likely to be sacrificed, if not literally then at least to dead-end jobs. Academics and teachers, plus distinguished intellectuals such as China's most famous dissident, the astrophysicist Fang Lizhi, will be targets. Contributions from China's best economists to the key question of how to modernise the lumbering economy will be shelved and their authors sidelined, if not worse.

Chinese development is likely to be frozen where it stands, at least for many months. Political reform has been a dead letter for more than a year. China has fought a losing battle to retain his power as party leader. Economic reform has been frozen since last autumn because of high inflation. In any case, economic reform was constantly sabotaged by interference from conservatives and hardly had a chance to run smoothly.

The unobtrusive reintegration of Hong Kong to China now seems impossible. Last week's pro-democracy demonstrations in the British territory underline the growing view that it needs much stronger safeguards than are proposed in its mini-constitution, the Basic Law, or in its own political reforms for the next few years, before it reverts to China in 1997. The emigration

rate of Hong Kong's brightest and best to Canada and elsewhere seems likely to multiply greatly.

It could be argued that, as China's new power-holders are mostly over 80, their term of office is likely to be short. Deng Xiaoping himself is clearly failing, if not in political acumen at least in physical powers. Chen Yun, Po Zho and the rest of the octogenarians who emerged last week to give their support, are frail. The exception is the 60-year-old premier, Li Peng, but he is widely seen simply as a puppet.

Furthermore there have been some signs of difference over policy, such as the defence by a number of retired generals last week of the students as "patriotic". Some Chinese say, too, that Deng is thought to have demanded, and got, obedience from six out of China's seven regional military commanders. The seventh, Peking, has now fallen into line.

President Yang Shangkun is a former senior army chief and still counts among his relatives many important military leaders whose interests are best served by a conservative administration.

The outlook for China under what could effectively be a military dictatorship is bleak indeed.

HK debate clouded by troubles in Peking

By Michael Murray in Hong Kong

MEMBERS of Hong Kong's executive and legislative councils meet today to try to agree on a post-1997 model for the selection of the territory's chief executive.

They will try to hammer out a consensus ahead of this week's two-day legislative council debate on the basic law, Hong Kong's future mini-constitution, which is currently in a final period of consultation.

Councillors led by lawyer and liberal activist Mr Martin Lee have been pressing for the first chief executive, who will be under the present system, to wield considerable powers, to be chosen by universal suffrage, though others favour an electoral college process for the first term at least.

Concern at recent events in Peking and the groundswell of popular support for the student protests have already led to a unanimous vote by executive and legislative council members to speed up the timetable for elections to the post-1997 legislature, with a fully directly elected legislature by the year 2003.

At the weekend demonstrators again took to the streets in protest at the crackdown in China. Despite the apparent freezing out of the student protest in Peking and the consolidation of the hardliners' grip on power, local protesters continued to call for democratic reform in China and for Premier Li Peng to step down.

On Saturday several hundred thousand spectators attended an emotional open-air concert.

A demonstration on Sunday is estimated to have been even bigger than the previous week, when more than 500,000 of the territory's 5.5m population took to the streets.

The protest march had a carnival atmosphere, with banners calling for freedom and democracy in China mingling with Chinese flags.

Syria applauds Baker's stricture on Israel

SYRIA HAS paid a warm tribute to the US administration, after criticism of Israel voiced last week by Mr James Baker, Secretary of State, Andrew Gowers reports from Damascus.

Mr Mohammed Salman, Syrian Information Minister, said at the weekend Syria saw Washington's call on Israel to give up

the idea of annexing territories it occupied in 1967 as "very positive", adding "We are hearing that for the first time from an American personality. This means the US is refusing Israeli expansionism."

The minister's remarks came after President Hafez Assad of Syria had joined other Arab leaders, at a summit meeting in

Morocco, in backing the Palestine Liberation Organisation's current peace initiative. Mr Salman said that, after meetings of Mr Assad and Mr Yasser Arafat, PLO chairman, at the summit, the PLO was welcome to send a delegation to Damascus to discuss a full reconciliation between the two sides.

Old vendetta lets Lebanese blood

Andrew Gowers weighs up Damascus-Baghdad rivalry

EVERY SO often the Arab world finds its foundations shaken and its political resources sapped by an inter-ethnic feud of quite baffling ferocity.

Such was the case at last week's Arab summit in Casablanca, where the old schism dividing Syria and Iraq erupted into open abuse between the respective presidents, Hafez al-Assad and Saddam Hussein, on the subject of Lebanon. No sooner had the Arab League mended its final fences with Egypt, after a 10-year rift over the Camp David accords with Israel, than a much deeper vendetta was reasserting itself, with Syria and Iraq entrenched on opposite sides in the latest round of Lebanon's 14-year civil war.

The outcome of the bout last week was a victory on points for Syria. But, with the propaganda war between Damascus and Baghdad plumbing new depths, that is almost certainly not the end of the affair.

Rivalry between the two capitals goes back at least to the eighth century AD, when the Abbasid in Baghdad usurped the leadership of the Arab empire from the Umayyads of Damascus. In modern times, the conflict has taken on new and virulent forms, and has brought them close to hostilities more than once.

There is a peculiarly intense personal loathing between Saddam Hussein and Hafez Assad. It is often said that the two men, rulers of neighbouring countries for the best part of 20 years, can scarcely bear to be in the same room together — an observation borne out by last week's events. By repute, there is a world of difference between the two individuals.

However, they match each other in ruthlessness and ambition.

Both desire to play a role in the Arab world's disproportionate role in their countries' demographic weight; both possess formidable military machines; both pay lip service to Socialist ideology but have made pragmatic accommodations with private enterprise and conservative Arab monarchies.

Above all, as befits authoritarian rulers, both Hafez Assad and Saddam Hussein are constantly on their guard, their watchfulness aggravated by the fact that they belong to minority sects in countries riven by powerful sectarian or ethnic traditions. In the case of Iraq, a Sunni Muslim Arab elite presides over a Shia majority and a large and rebellious Kurdish minority. In Syria, power is invested in the Alawite community from the mountains north, a sect of Islam closer to Shi'ism than the Sunni branch adhered to by most Syrians.

Partly for these reasons, each country has tended to blame its domestic political trouble on subversion by the other. Syria accused Iraq of having a hand in an uprising by Sunni fundamentalists in the town of Hama in the early 1980s. Saddam Hussein, for his part, claimed to have uncovered a plot against him alleged to have been supported by Syria shortly after he seized the Iraqi presidency in 1979.

What has brought the underlying tension to a head is Saddam Hussein's desire to avenge Syria's support for Iran in the Gulf War since the ceasefire last summer. Where better to create trouble for Syria, the Iraqi leader calculated, than

Lebanon — scene of many of the Arab world's proxy wars and a country where Damascus believes history and geography give it a special role.

Since last autumn, Iraq has been pouring money and arms — including heavy artillery and tanks — into Beirut's Christian enclave where Maronite forces oppose the Syrian military presence in Lebanon. This year, Baghdad has emerged as the principal sponsor of Gen Michel Aoun, the Christian army commander who is waging a "war of liberation" against the Assad regime.

Syrian officials claim Iraqi and Israeli military advisers are working with Gen Aoun, and mutter that he possesses six missiles — probably Soviet-made Frogs — with the range to strike Damascus. Iraqi officials make no secret of their aim either to force Syria into a humiliating withdrawal from Lebanon or to goad Hafez Assad into a full-scale intervention in the Christian enclave, which they hope would dent his international prestige.

In an intriguing but distorted symmetry, each side claims the other has been weakened by recent events: the Iraqis say Syria's international assets have diminished as a result of the end of the Gulf War and the Palestine Liberation Organisation's overtures to Israel; the Syrians point to recent ructions in Saddam's family and his vicious suppression of the Kurds as evidence of post-war insecurity.

"Assad has lost his Palestinian card and his Iranian card," gloated an Iraqi official in Baghdad last night. "Lebanon is the last card he has."

"As long as the contradic-

tions within Iraq increase," retorts Mr Mohammed Salman, Syria's Information Minister. "Saddam will try to keep his army busy with outside activities."

It was with the hope of building an Arab consensus for Syrian withdrawal that Saddam Hussein went to Casablanca last week. He seems to have miscalculated. The outcome was a bland statement calling for continuing efforts at political reconciliation between the Lebanese under the auspices of three Arab leaders — from Morocco, Algeria and Saudi Arabia — who are unlikely to create problems for Syria.

For the moment, then, Syria's position does not seem under serious challenge. In alliance with Lebanese Muslim forces, its 30,000 or more troops control 80 per cent of the territory. It enjoys at least tacit support from Arab powers such as Saudi Arabia, which is anxious to shield itself against Iraq's post-war ambitions. Rather than send troops into the Christian enclave, the Syrians believe they can afford to sit tight until the Lebanese tire of Gen Aoun's adventure.

"Syria has no intention to enter this area or to solve Lebanon's problems by military means," says Mr Salman.

On the other hand, Saddam Hussein has invested a lot of prestige in his attempt to make mischief for Syria, and it is hard to see him dropping his support for Lebanon's Maronite Christians now. With or without genuine moves towards reform of Lebanon's political system, the battered people of Beirut have reason to fear yet more bloodshed as a result of what is, at least in part, somebody else's war.

Students wake to sober reality

Protesters fear punishment, reports John Elliott

MI, a 21-year-old physics student, stood beside a bright red loud-hailer and a couple of demonstration posters in a scruffy dormitory of Shanghai's Fudan University. "It is failure but we will have won in peoples' hearts and we can only expect to get democracy step by step," she said.

In another room two post-graduates in their early 30s, who were caught up as teenage Red Guards in China's cultural revolution of the 1960s and 1970s, remembered they had lost — for the time being — the past week's demonstrations should not be remembered as turmoil, a word used, by Li Peng, the hardline Prime Minister, who also compared their democracy movement with the cultural revolution.

"Turmoil is a disgusting term — this time we have had a movement which wants to keep China stable and help it develop and become prosperous, not cause turmoil or chaos," said Xiao Wang. "The cultural revolution was the result of top leaders using students for their political aims — this time the student movement has not wanted to be a tool but we do want a different political system. It is the government that has made turmoil," said Xiao Yang.

In Shanghai's universities, the past three days have seen

adjustment and sadness after the euphoria of a week ago when the spontaneous country-wide student movement, brilliantly self-regulated and generally peaceful, thought it was heading for victory.

There has been a sudden reduction in militancy amid fears of punishment. First, students rested over the weekend after days of frenetic activity. Then many acknowledged defeat, but they still went on a big final rally at the city's People's Square and the Bund, riverside promenade on Sunday.

A large poster depicting Li Peng as a crawling crab was a focal point, together with an eight-foot plastic model of the Statue of Liberty.

Some students talked of joining a planned workers' march today, though many complained that workers were not prepared to strike and endanger their increasingly comfortable life styles with television sets and refrigerators at home. There were dreams of a demonstration on October 1, Liberation Day, and of rallies at the Asian Games in Peking next year.

But punishment was uppermost in many people's minds. "We may get sent home before we graduate," said Mi. "A few people will be put in prison or be sent off to remote provinces," said Yang.

"But most students who took

part will just get a bad job, or maybe they will not be able to go abroad if they will not be able to. After our experiences in the cultural revolution, they can do nothing to worry me. I am willing to go to prison — I'll convert the guards."

People started covering their tracks over the weekend, sometimes refusing to act as foreign reporters' interpreters. There were arguments about whether to join a planned boycott of classes this week. "I hope there is a class tomorrow, I want to show I am back," said one Communist Party member anxious to rehabilitate himself. Yesterday students at Tongji university left a couple of weeks early for their homes, saying they would not return till September.

Parents who had not wanted their offspring to suffer a repeat of their own punishment in the Cultural Revolution were relieved that protests were waning.

Students said they were originally motivated by disgust that the economic liberalisation of the past ten years had led to mounting official corruption.

Private enterprise had widened pay differentials, while they lived in appalling conditions and, along with lecturers, had poor job prospects.

Their basic political demands have been limited and far from revolutionary.

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OVERSEAS NEWS

Debate grows on Japan's market changes

The view is gaining ground that Tokyo needs another big shock, Ian Rodger writes

REGARDLESS of the political and technical merits of last week's decision by the US to cite Japan as an unfair trader, there is growing debate on whether the process of market liberalisation in the country is still on course.

In the US and elsewhere, the view is gaining ground that, despite its pledges, Japan is not emerging from its protectionist traditions quickly enough and that it needs to be hit with another big shock. In Japan, most officials believe that the momentum of structural change is proceeding satisfactorily and even gathering pace.

Excessive pressure from the US or other foreign countries risks offending the Japanese people and thus being counterproductive, they fear. Certainly, the results of the country's efforts at structural change in the past few years are meagre so far. When the seven leading industrial countries agreed in September, 1985 to revalue the yen, it was widely assumed that this move would force Japanese manufacturing industry to change its aggressively export oriented structure.

The Japanese government quickly followed up with the so-called Maekawa report, the fruit of a blue ribbon committee study which set out a blueprint for complementary structural changes in the economy and society to help absorb the expected severe adjustments in industry.

Under the Maekawa plan, the government would stimulate domestic demand, partly to attract imports, and would dismantle regulatory barriers to market forces in many industries. Measures would be taken to remove excessive incentives to savings in the hope of stimulating consumption, and rules would be changed to reduce the working week, create more holidays and take other steps to encourage the Japanese people to be less workaholic. Four years later, even though the yen has doubled in value against the dollar, the trade surplus is much higher than it was in 1985 and, by all accounts, it is likely to grow again this year to something like \$100bn.

Imports have grown significantly, but manufactured imports still represent a relatively small proportion of gross national product. It was expected that many lower value industries, such as shipbuilding, textiles and steel, would have to contract or disappear as a result of the yen revaluation, and that was accepted by Japanese authorities as an inevitable consequence of the need for fairer international division of labour. In fact, Japan now produces more steel than five years ago, the shipbuilding sector is booming and only in the garment making sector has the country given way significantly to the pressure of imports from neighbouring Asian countries.

What appears to have happened is that the Japanese people, particularly those in manufacturing industry, reacted to the yen's rise in an unexpected but very traditional Japanese way. They worked harder. Industries quickly overcame the revaluation through a combination of rationalisation and development of new, higher value products. In the electronics industry, in particular, they have developed a series of sophisticated products - facsimile machines, laser printers, laptop computers, hand held video recorders - that cannot be matched elsewhere, and so makers can pass on the impact of the yen's rise to the world's consumers. Meanwhile, the process of eliminating barriers to imports has been disappointingly slow in all but a few luxury product markets.

For their part, individuals have been hesitant to drop their deeply ingrained habits of thrift, hard work and acceptance of substandard living conditions. Household savings rates remain at 16 per cent, well above the 8 per cent rate in the UK, and both ordinary and overtime working hours have increased since the Maekawa report. Trade unions remain docile, accepting wage increases this year of about 5 per cent despite a second year of double figure profit growth in industry.

What all this suggests is that the Japanese moved most quickly on the least painful changes in the Maekawa blueprint - stimulating domestic demand and liberalising financial markets. But they have dragged their feet on the ones - deregulation, reduction of working hours, land use reform - which would have broken traditional commercial ties and caused anxiety in a people who still feel economically vulnerable.

Thus, perversely, the main beneficiaries of the Maekawa reforms to date have been Japanese manufacturing companies. In the past few days, dozens of companies have been reporting their financial results for the 1988-89 fiscal year, and one of the most common themes is that their profits have been soaring because of strong domestic demand. That success, in turn, has helped arm them with funds to invest abroad, which they are now doing with such speed

that it is arousing opposition in many countries. Because of the high yen, these investments are relatively cheap. Conversely, the revaluation of the yen and the subsequent surge in Japanese land prices have made it more difficult for foreign companies to invest in Japan.

On the other hand, there is considerable evidence that ordinary people too are starting to benefit from Japan's success and, more important, to demand more. The number of people travelling overseas is expected to reach 10m this year compared with only 6.5m four years ago, and Japanese property companies are investing heavily in leisure facilities at home to meet growing demand.

The rationalisation of the agricultural sector is under way, albeit slowly, and that should at some point make it politically possible for the government to implement measures to promote land reform. Better land use is seen by many analysts as a most important reform, as it would lower housing prices and raise living standards.

Is it enough? Is it happening quickly enough? The Japanese Government's view is that restructuring is proceeding satisfactorily. "We have pledged ourselves to this process and we are proceeding on the set course," Mr Michihiko Kuzuhira, an assistant deputy foreign minister, said on Friday.

He acknowledged that the process had not proceeded as quickly as he had hoped three years ago, but that was not because of any "monkey business" on the Japanese side. It was simply that Japanese companies had responded quickly to increases in demand both in Japan and the US. "Who knows how long some of them will survive if US demand drops?" he asked rhetorically.

The US Administration, which has launched an investigation of structural barriers within the Japanese economic system, obviously disagrees, as do other Western Governments. Mr Martin Bangemann, vice-president of the European Commission, who was in Tokyo last week, needed Mr Hiroshi Mitsuoka, Minister of International Trade and Industry, saying that the implementation of the Maekawa report was not proceeding as quickly as the legislative programme to bring about the unification of the EC market.

Even if there was agreement on the need to galvanise the Japanese people into more action, there is no longer an easy way to do it. The view is growing in both Japan and the US that it would not be helpful to bring about another significant revaluation of the yen because many Japanese exporters would quickly adjust to it. It might even be harmful, making it easier for Japanese companies to expand overseas and still more difficult for foreign companies to expand in Japan. Also, any attempt by the US to demand an acceleration of structural changes in Japan will be met by indignant demands that the US do likewise. From the foreign viewpoint, the best solution would be for Japan's leadership to become convinced that more rapid change was needed and to take bold action to bring it about. But the climate for such leadership is not propitious.

Leading astrologers are also said to be concerned about the regime's announcement that it is prepared to emerge from self-imposed isolation and to consider foreign investment for the first time in more than a quarter of a century. "The change in the country's name may therefore also be interpreted as an early antidote to the perceived dangers of foreign influence."

When Japan and other aid donors cut off assistance to Burma last autumn in protest at the killing by the regime of more than 1,000 demonstrators, one of the conditions for a resumption of aid was the introduction of economic reforms. The regime promptly dropped the "Burmese Road to Socialism", which had almost bankrupted a nation still rich in natural resources, but has yet to flesh out the replacement policies.

However, by selling fishing and logging concessions, sufficient foreign exchange has been gathered to finance a four-month military campaign against Karen rebels who have been fighting for 40 years for autonomy from what used to be called Rangoon. The fighting has been particularly intense in the past week.

For Burma, read The Union of Myanma...

By Roger Mathews

BURMA, one of the world's 10 poorest countries, has officially ceased to exist. The country's military regime has taken the ultimate step in its campaign to convince the world that everything has changed since the brutal suppression of mass pro-democracy demonstrations last September. It has chosen a new name for the country.

Instead of The Union of Burma, it is to be called the Union of Myanma. Rangoon, the capital, will henceforth be known as Yangon, while the city of Moulmein becomes Mawlamyaing and Proza is to be Pyi.

The official explanation is that more than four decades after the country became fully independent from Britain at the astrologically auspicious moment of 4.30 am on January 24 1948, the residual aspects of colonialism have to be swept away.

Leading astrologers are also said to be concerned about the regime's announcement that it is prepared to emerge from self-imposed isolation and to consider foreign investment for the first time in more than a quarter of a century.

The change in the country's name may therefore also be interpreted as an early antidote to the perceived dangers of foreign influence. When Japan and other aid donors cut off assistance to Burma last autumn in protest at the killing by the regime of more than 1,000 demonstrators, one of the conditions for a resumption of aid was the introduction of economic reforms.

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21292 Barton Group Co. Prof. (SE)	122	+7	5.9	8.8	8.9
6109 Bray Technology	103nd	0	11.9	10.2	-
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9958 Ishi Group	125	0	-	-	16.4
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Sosuke Uno, specialist in policy issues

MR Sosuke Uno (right), who is expected to be named Japan's new prime minister later this week, has many qualities and qualifications but, in ordinary circumstances, they would never have enabled him to reach such a high position, Ian Rodger writes.

The son of a sake brewer in rural western Japan, he first came to prominence in 1947 when he published a book about his experiences in an internment camp in Siberia. The book was aimed at raising public awareness of the plight of the remaining internees and it was so successful that it led to a political career for someone who might otherwise have been a scholar. Despite being a politician,

he has published two collections of poetry and two books on the history of his native region of Shiga. He paints in oils and plays the piano privately and the harmonica publicly, as many foreign dignitaries can attest. He is also a qualified teacher of kendo.

Mr Uno, who is 64, has concentrated on policy issues in his career rather than internal party matters, and so has never built a following within the party or been considered a potential leader. However, he has done memorable work in most of his cabinet portfolios, which have included science and technology, public service management, international trade and industry and foreign affairs.



He is eloquent in his speeches and wins wide praise from foreign diplomats for studying his brief carefully

Correction Sumitomo Trust and Banking

A headline on page three of Saturday's Financial Times which read "Recruit scandal falls Sumitomo bank chief" should have read "Recruit scandal falls chief of Sumitomo Trust and Banking".

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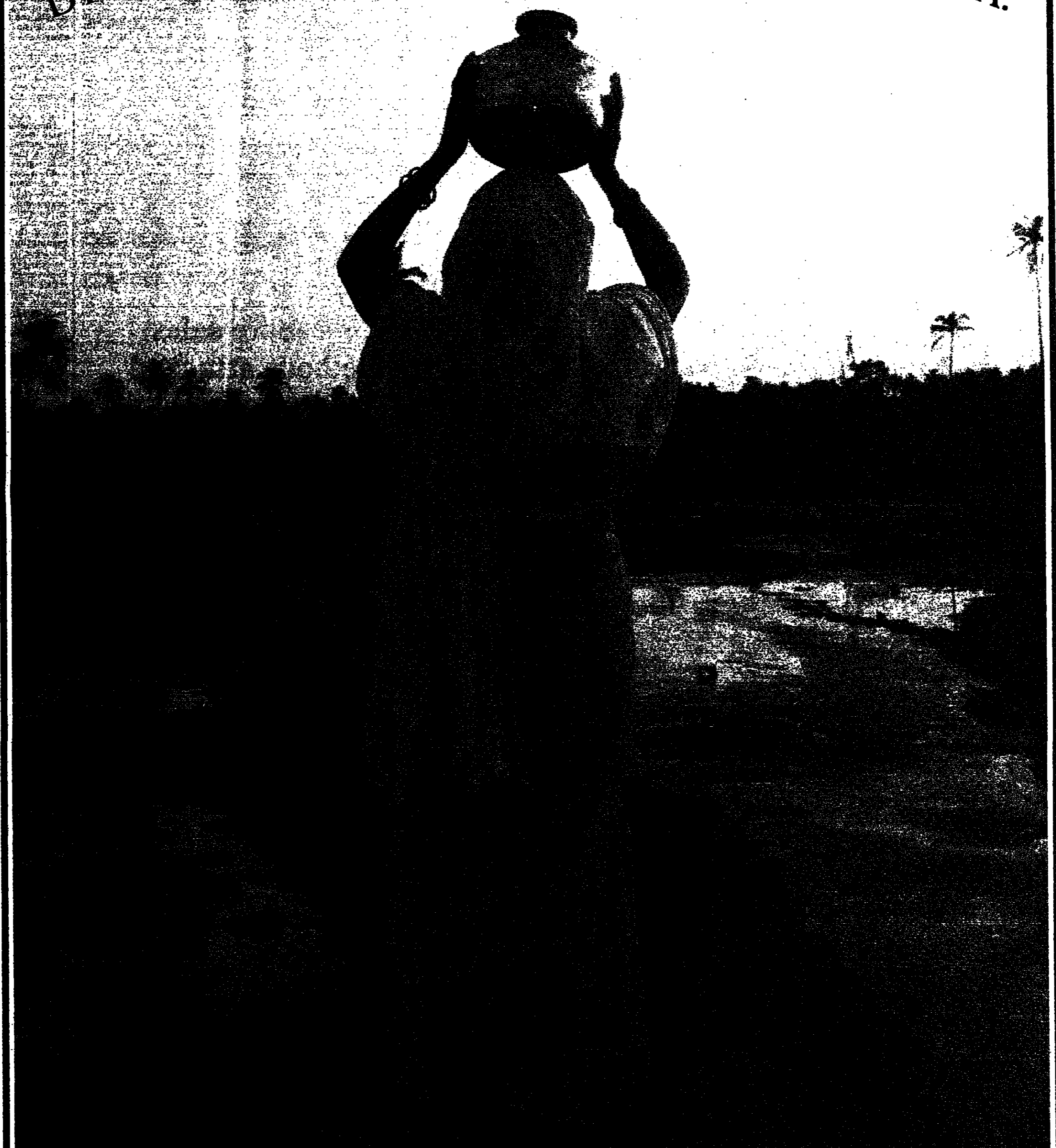
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UK NEWS

Pharmaceutical industry row over drug safety tests

By Peter Marsh

A ROW over scientific standards used in trials of medicines has erupted between Britain's main trade association for the pharmaceutical industry and a leading drug safety research body.

The Association of the British Pharmaceutical Industry came under fire from Professor Bill Inman, head of the Drug Safety Research Unit at Southampton University.

Prof Inman is regarded as one of the world's foremost authorities on the surveillance of new drugs to determine their safety. He set up the Southampton unit in 1980 and receives money from both the Government and industry to run a number of scientific programmes to record the adverse reactions of patients to new drugs.

Prof Inman is a long-time critic of what he believes are efforts by some drug companies to promote their new drugs with excessive zeal, to the possible risk of patients' health.

These promotional exercises could, he believes, lead to many thousands of patients being told to take a new medicine before its safety profile has been properly worked out.

At the end of last year Dr Frank Wells, medical director

at the ABPI, wrote to chief executives of major UK and US drug companies drawing attention to some of Prof Inman's views regarding promotional efforts by the industry. These comments had, said Dr Wells in the letter, received wide publicity in Britain "to the damage of both UK and US companies".

Prof Inman said that the letter had been a "blatant attempt" by the trade association to damage a drive by him last year to raise money from the international drug industry for a new building for his unit to expand its operations.

In the event, Prof Inman raised £1.3m through the funding exercise, most of it coming from US pharmaceutical companies including Merck, Pfizer, Upjohn and Johnson & Johnson.

Only two British medicine groups, Beecham and Imperial Chemical Industries, came up with money and Prof Inman believes that other large UK companies, such as Glaxo and Wellcome, might have promised support had it not been for the letter from Dr Wells.

Behind the dispute is a rambling controversy over the techniques used by drug companies to increase revenues from new medicines by per-

suading large number of doctors to prescribe the products in the first year or so after they are available.

The discussion has focused on post-marketing clinical trials, efforts organised by individual companies to assess the safety of their new medicines by asking doctors to report any adverse effects.

Prof Inman believes that some companies, which he stresses have been a small minority, have put undue pressure on doctors to enter these trials. Physicians have, he believes, sometimes been given cash inducements by the companies to prescribe new drugs to an excessive number of patients.

The professor believes his own studies, based on prescription data which he receives direct from the Department of Health, are a more reliable guide to the safety of new drugs and are free from commercial overtones.

The ABPI pointed out that in the past few years new guidelines had been agreed in the industry designed to curb incorrect use of post-marketing studies and to harmonise scientific studies in this field. It said it did not want to comment on the details of any discussions regarding it and Prof Inman.

Sunderland air pollution prompts EC legal threat

THE GOVERNMENT was threatened with European Community court action yesterday because of air pollution in the Sunderland area.

The European Commission in Brussels said conditions were so bad that it would launch legal proceedings in two months unless the Government could justify its failure to take steps to cut levels of anhydrous sulphide in the atmosphere.

EC restrictions on certain substances in the air have been in force since 1982 but Sunderland was one of the regions granted an exemption. All exempted areas were told by Brussels to produce long-term proposals for cutting levels of pollution.

In a formal warning yesterday the Commission said that no plan had been forthcoming and the Government was in breach of the rules. Under EC legal procedure the Government has two months to reply before the Commission considers its next step.

The investigation of air pollution over Sunderland was triggered by the complaint of a private individual. The Commission now wants to see concrete evidence that efforts are being made to reduce the concentration of pollution in the vicinity.

The Department of the Environment said it had not yet seen the warning letter from the Commission.

A spokesman said, however: "The UK has always made it explicitly clear that we intend to comply fully with the directive."

"If local authorities are reluctant to impose the directive the Secretary of State has full powers to direct them to do so."

Economic trends 'to change in 1990s'

By Michael Prowse

THE PATTERN of economic activity will change markedly in the 1990s as Britain strives to curb its balance of payments deficit, says Cambridge Econometrics, the private forecasting group, in a long-term economic and industrial forecast published yesterday.

The company projects growth of about 2.3 per cent a year during the 1990s - about 1 percentage point slower than between 1985 and 1990. It expects inflation to hover between 5 per cent and 6 per cent and unemployment to drop only to 1.6m by the year 2000. However, the company expects the balance of payments to return to small sur-

plus by the end of the period.

The improvement in the current account assumes a gradual depreciation of sterling and a sharp reduction in consumption growth. Consumers' expenditure is forecast to grow by only 1.9 per cent a year during the 1990s, compared with more than 3 per cent during the 1980s.

Exports are forecast to grow at 4.5 per cent during the 1990s, compared with 2.5 per cent between 1979 and 1988. Imports should grow by slightly less than 4 per cent a year, compared with close to 5 per cent during the 1980s.

The shift in demand away from consumption and imports

and towards investment and exports has important implications for individual industries. Manufacturing will gain at the expense of consumer services, such as retailing and catering. But service companies with business clients will also tend to do well.

In manufacturing high growth is expected in chemicals, electrical engineering, paper, printing and publishing, and building materials - reflecting the strength of construction, which will be supported by higher infrastructure spending.

In services high growth is expected in telecommunications, banking and finance,

and insurance. Low-growth industries of the 1980s include clothing, textiles and mechanical engineering. The sharpest sectoral turnaround occurs in energy, as a result of the decline of North Sea oil production.

The projections depend critically on the assumption that consumers' expenditure is restrained. In the absence of tax increases, says the report, measures to boost saving are likely to include incentives for private pensions, high interest rates and tax reforms.

Industry and the British Economy to the year 2000. Cambridge Econometrics, 21 St Andrews Street, Cambridge CB2.

Call to end 'commission war'

By Eric Short

A CALL for the return of an industry-wide maximum commission agreement on life assurance contracts was made at the weekend by Mr Len Warwick, president of the Life Insurance Association, a trade body for life and pension intermediaries and advisers.

The call was made in the association's initial response to the proposals published last week by the Securities and Investments Board on its disclosure arrangements for life assurance and unit trusts.

Mr Warwick referred to the current situation of a commission war between life companies seeking to secure their marketing outlets through independent advisers. This was resulting in a bidding up of commission payments on a volume-related basis, with the largest producers receiving the highest commission.

He laid the blame for the present commission "free-for-all" squarely with the Office of Fair Trading, for recom-

manding that the existing industry-wide commissions agreement should be abolished and that commission payments should be free of restraint.

His fears, expressed to the SIB, were that independent advisers could find it difficult to demonstrate their independence when commission payments based on volume would lead to suspicion of bias by the adviser to the highest paying life company.

The LIA warned the SIB that the answer to these problems was to remove the influences which bring about such suspicion by a return to a maximum commission agreement and not more disclosure - a reference to the SIB's veiled warning in the section of its document relating to commission disclosure that "further adaptation in disclosure and regulation may be found necessary in the light of experience."

Mr Warwick also had warnings for life companies offering volume-related incentives. These incentives were directly against the pronouncements by regulators and Government, even if their payments were being made in a manner that did not infringe the letter of the regulatory rules.

As such, he felt that life companies were provoking both the Government and the SIB to consider more stringent disclosure than the current proposals.

This in turn would renew pressure on independent advisers to reconsider their status just as they were beginning to overcome the problems posed by the financial services regulations and regulators.

Otherwise, the LIA gave a general welcome to the SIB proposals, regarding plans to disclose charges and expenses as being a further step forward in providing consumers with a greater degree of relevant information than mere commission disclosure.

InterCity travellers see red

By Rachel Johnson

HUNGRY passengers on InterCity trains may not have been surprised to hear last week that the sector has become the only passenger railway network in the world to make a profit.

However, Mr John Frideaux, InterCity's director, insisted that the move into profit had little to do with bumping up fares or the price of a cup of coffee on trains.

Last week InterCity said it had beaten the Government's deadline to move into profit without a subsidy by a full year.

From a loss of £104m in 1987-1988, a profit of £24m was predicted for 1988-1989.

Passengers facing 10 per cent increases in the cost of food on trains as from last week, and 21 per cent increases for their annual season tickets this year, could be forgiven for thinking that InterCity's turnaround has been achieved at their expense. The Consumers' Association is agitating on their behalf about what it calls "the price of coffee syndrome" - when how much you pay bears no relation to what you get.

"How can an organisation pride itself on lurching into profit by extracting the last penny it can from passengers?" said Mr Tom Jaime, editor of this year's Good Food Guide, published by the association.

The cost of tea, coffee, sandwiches and snacks went up by about 10 per cent in April, to the sometimes ludicrous figure InterCity also increased the cost of breakfasts. First-class passengers on the Pullman services now pay £9.95, which the Consumers' Association estimates is more expensive than the Savoy.

As from last week main courses for dinner on the train cost from £9.50 for pasta with tomato sauce to £12.95 for poached Scottish salmon. Last year most main courses were under £10. The price of coffee rose by 20 per cent.

The Consumers' Association said these were top quality West End restaurant prices but the consumer was getting a cool-drill offering.

InterCity, however, describes the increases as "product changes and much more differentiation" resulting from a better understanding of the market.

The new prices are ahead of the rate of inflation, but the net cost of providing the services rose threefold last year.

Co-operative societies' sales rise 8%

By Maggie Urry

THE Co-operative movement achieved retail sales of £5.8bn in 1988, an 8 per cent increase on the 1987 total, the Co-operative Union revealed yesterday at the movement's annual congress being held in Torquay, Devon.

This represents a slight fall

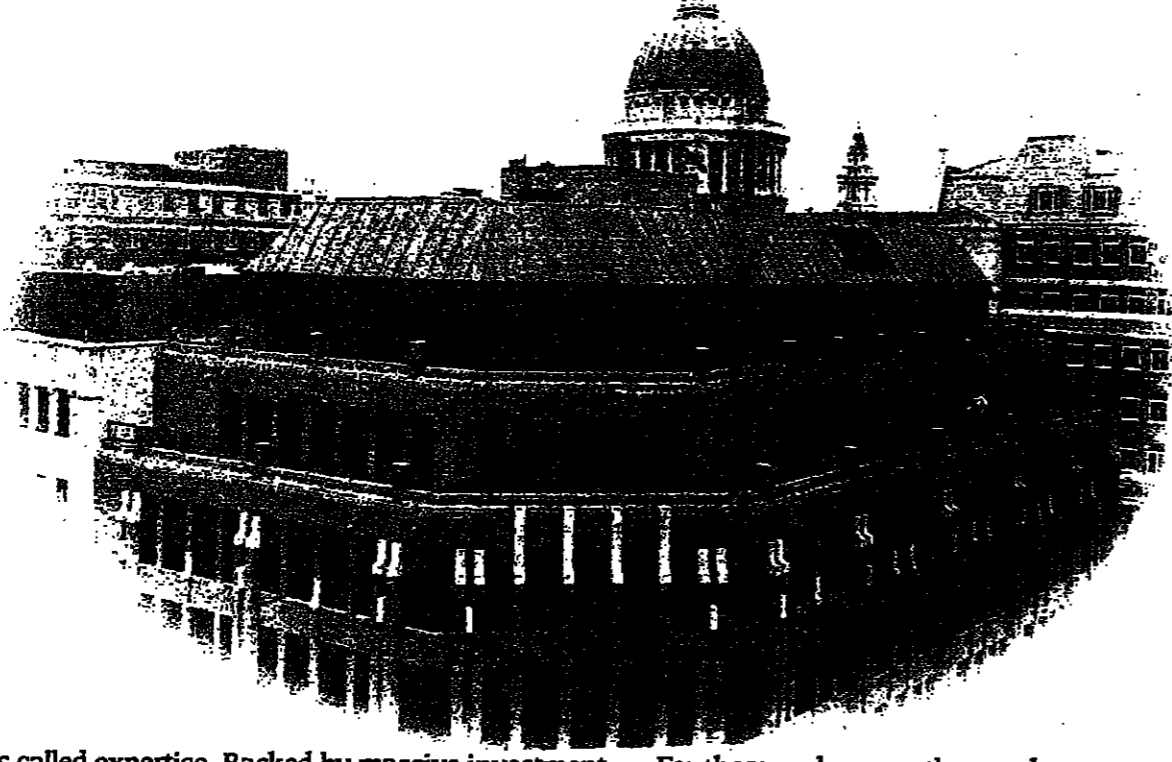
in the movement's share of total retail sales from 4.5 per cent to 4.4 per cent. The union said that the rate of decline of market share had slowed.

The aggregate trading surplus of the 85 co-operative societies was £110m in 1988, up from £98m in 1987. Although

this showed an improvement in trading margins from 2.6 per cent to 2.1 per cent, the performance was still below the aim of 2.5 per cent.

The union, which organises and speaks for the movement, said it was optimistic about the future.

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Timeshare sales methods attacked

By David Churchill, Leisure Industries Correspondent

THE PROMOTIONAL methods used to attract holiday timeshare buyers have been sharply criticised by the Advertising Standards Authority, the watchdog body for press advertising and other forms of sales promotion.

In its latest report on advertising complaints made by the public the authority says that although timeshare has been around for several years, "it has clearly not settled down to the extent of avoiding offence by the sales methods of all its members."

Timeshare is the system whereby consumers are able to buy a period of time each year in a property, usually in a holiday resort and often as a hedge against rising holiday prices.

In spite of criticisms it is still one of the fastest growing sectors of the holiday market.

There are more than 1.5m timeshare properties worldwide and at least 120,000 Brit-

ons have bought a share in a timeshare property. Sales to British owners in the UK and overseas now total more than £250m.

The authority points out that "a source of anger, as reflected in a regular string of complaints to the authority, is the sometimes ludicrous gimmicks used in mail shots to prospective customers to try to make the letters look different from other unsolicited mail."

It cites the example of a US-originated timeshare offer by post which had envelopes over-printed with the words "Royal Postmaster" to attract attention.

"There is an assortment of gimmicks to suggest urgency," it says. "Some letters contain what appears, through the window on the envelope, to be a genuine cheque."

It believes that many of these letters do not make it clear that the purpose is to sell timeshares.

Bundespost to take stake in pocket-phone system

By Hugo Dixon

THE BUNDESPOST, West Germany's state-owned telecommunications operator, has agreed to take a stake of about 10 per cent in one of the UK's teletext networks, the revolutionary pocket-phone system due to start later this year.

The Bundespost is joining Phonpoint, the teletext consortium led by British Telecom. Other shareholders are STC, the UK electronics company, France Telecom and Nynex, which runs New York's teletext network.

BT originally had a 60 per cent stake in the consortium, but the Government said it would have to reduce this to

under 50 per cent and that Phonpoint would have to be run on an arms-length basis from BT to avoid it dominating the market.

The Bundespost has been talking to BT about taking the excess shares for several months. Ms Sandra Rogers, Phonpoint's marketing manager, said that an agreement in principle had now been reached.

The addition of the Bundespost to Phonpoint will put the consortium in an excellent position to develop international teletext services, as its shareholders have a strong presence in four of the world's leading economies.

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In the past Siemens selected the image of a slow-moving bureaucratic company relying heavily on a monopolistic domestic market and with limited enthusiasm to move strongly into international markets.

The last decade has seen a major change with 50 per cent of its domestic business coming from the private sector and the other half either by direct exports from its West German factories or from Siemens overseas operations.

The Telecommunications Research Centre, the world's largest and most experienced telecommunications market analyst, has just completed a major strategy analysis study on Siemens identifying its strengths and weaknesses as a future world market player. Published May, 1989

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UK NEWS

Most company pensions 'lagging behind inflation'

By Eric Short, Pensions Correspondent

INCREASES being made by company pension schemes to pensions paid to pensioners are lagging behind inflation, according to the latest survey from leading consulting agencies, E. Watson & Sons.

The firm's ongoing survey of pension increases shows an average rise of 4.7 per cent to pension payments in the 12 months to January 1, 1989.

The increase in the Retail Price Index over the same period was 6.8 per cent, while the earnings index rose by 10.5 per cent.

The majority of company pension schemes provide pensions at retirement based on the salary of the employee at or near the time of retirement and the number of years' membership. An employee's pension entitlement during his working life is therefore effectively revalued in line with earnings increases.

But when pension payments start, future increases to offset inflation are usually made at the discretion of the scheme trustees and the employer. The increases depend largely on the surpluses in the scheme to fund those payments.

Very few private sector schemes even match, let alone guarantee, inflation increases, as is the position with public sector schemes.

Company schemes have for several years been in a sound

financial position, with substantial surpluses, thanks to a buoyant asset position.

Pension actuaries base equity asset values on dividend flows rather than market values. UK equity dividends rose 16.1 per cent in 1988, according to the Watson survey, so company schemes should still be recording substantial surpluses.

Companies are dividing their surpluses between pensioners, by increasing pension payments, and shareholders, through contribution holidays.

The evidence of the latest survey from E. Watson indicates that employers and trustees should be putting more emphasis on further pension increases when considering the use of surpluses, and less on contributing contribution holidays.

A recent report from the Occupational Pensions Board on the rights of employees and employers in occupational pension schemes referred to the rising expectations of employees and pensioners towards their payments.

The board urged that schemes should revalue pensions in line with inflation at least up to 5 per cent a year, but refrained from recommending this revaluation to be a statutory requirement unless the pension scheme was being wound-up.

Financiers support survival of the fittest

By Citve Wolman

IN THE WAKE of American power breakfasts, huge performance-linked bonuses, and rapid hiring and firing, City financiers are now having to cope with US-style luxury sports and fitness clubs.

Mr David Giampaolo, the former "body-sculpting" Mr Florida (lightweight division) who last year established the Barbican Health and Fitness Club - with its 2800 joining fee - for the giant US Bally Health and Tennis Corporation, has returned.

His new company, Espreo Leisure, last month received £2m of equity finance from British and Commonwealth Holdings, the financial services conglomerate, and the LET Leisure subsidiary of the property company London and Edinburgh Trust.

It is now poised to sign a deal for a 25-year lease on a 23,000 square foot basement on the east side of the City of London near Tower Bridge.

The site will be refurbished as a fitness club full of muscle-building and exercise machines scheduled to open in mid-1990.

Another 20,000 square feet of fitness club is scheduled to open in London's docklands at about the same time.

Apart from the Barbican Club, which has built its membership to almost 5,000, the only other US-style sports and fitness club in the City is the recently refurbished Cannon, at the junction of Cannon Street railway station.

Another luxury sports club, Cottons, has been established just south of the Thames near London Bridge and a club in the Broadgate development near Liverpool Street is due to open shortly.

The Espreo team includes two other former directors of the Barbican club, Mr Andrew Campbell and Mr Andrew Ripley, and Mr Lynn Boeke, a US architect specialising in the design of sports and health clubs.

BNFL reprocessing set to grow as Bavarian plan fades

By David Goodhart in Bonn

BRITISH Nuclear Fuels Ltd is hoping to be one of the main beneficiaries from the expected decision not to proceed with the giant West German nuclear reprocessing plant at Wackersdorf in Bavaria and may try to raise its capacity significantly to accommodate the work.

BNFL confirmed yesterday it had made an offer to the German Association for Nuclear Fuel Recycling following the move by Veba, one of the German utilities behind the Wackersdorf project, to form a recycling venture with the French group Cogema.

That decision by Veba has thrown into doubt the future of the half-built Wackersdorf plant. A firm decision not to proceed is expected next month.

Abandoning Wackersdorf will mean several thousand tonnes of nuclear fuel per year coming on to the recycling market in the late 1990s. According to German press reports, BNFL is hoping to attract a large slice of that

market by undercutting Cogema.

State-owned BNFL, which currently recycles uranium and plutonium only for the CEGS, ought to be well placed to snap up extra international business when it completes its Thorp recycling plant at Sellafield in 1992. The Thorp plant can recycle spent fuel rods from PWR and AGR reactors and not just Magnox reactors as is the case at Sellafield.

BNFL boasts that it has already sold most of its capacity for the first 10 years of operation at Thorp but Mr Bob Phillips, chief spokesman, said: "We are examining whether we can raise our capacity over 10 years to 7,000 tonnes from the currently planned 6,000."

Mr Phillips said that German utilities were already the second biggest group of customers for the Thorp plant with about 800 tonnes booked for the first 10 years. The Japanese were the biggest customers with 2,000 tonnes.

If the German utilities do

consider taking a larger share of the Thorp operation they may do so only on condition that they are allowed a stake in the equity or management of BNFL as is being suggested by Veba in relation to Cogema.

A long-term deal with the Germans could be especially attractive if the CEGS - which has expressed some dissatisfaction with BNFL in the past - were allowed to seek other recycling sources, although such an Anglo-German recycling agreement might be less attractive to the Germans if the main domestic customer had abandoned BNFL.

Critics of recycling say that recycled uranium is far more expensive than new uranium and the plutonium can only be used in bombs. Anti-nuclear critics also fear that in the long run Sellafield will merely become a dumping ground for German nuclear waste which cannot be stored in Germany because of the stronger environmental movement.

Nuclear power station output rises by 35% in first quarter

By Maurice Samuelson

OUTPUT from Britain's nuclear power stations rose sharply by 35 per cent in the first quarter of 1989 while the combined output from coal and oil-fired stations fell by 7.8 per cent, government figures show.

Nuclear power stations performed as if they had burned the equivalent of 6.76m tonnes of coal, compared with less than 4.9m tonnes a year earlier.

The figures, in the Department of Energy's monthly statistical bulletin, reflect the marked recovery of the country's Advanced Gas-cooled Reactors from the troubles of a year previously.

They also fit in with the Government's desire that a lower proportion of electricity should come from fossil-fuel stations both in the interests of fuel security and the alleged impact on the atmosphere.

Nevertheless, coal remains by far the staple fuel for elec-

tricity production, accounting for about 77.5 per cent of total power station fuel use in 1988.

The first quarter of the year also saw a 7.8 per cent increase in coal production compared with the same period a year earlier, reflecting the industry's smoother labour relations and investment in heavy duty machinery.

Deep-mined output in the first quarter was up 10 per cent and opencast was up 2.5 per cent. There was also a 2.5 per cent rise in imports and 9 per cent drop in exports of coal.

But because of the mild winter, stocks of coal in March reached 37m tonnes, the second highest level for five years.

Another set of energy statistics, also produced at the weekend, showed the UK's North Sea oil output at its lowest level for nearly a decade.

The Royal Bank of Scotland's latest analysis said the

amount of oil produced in the UK sector of the North Sea was 34 per cent down last month on the same period in 1988. April's figure of 1.71 million barrels produced on an average day was the lowest since 1980.

Much of the slump was blamed on the explosion and consequent shutdown of the Cormorant Alpha field earlier this year.

The Royal Bank said the situation was likely to improve in the second half of the year as new fields came on stream.

The Shetland terminal receiving oil from Cormorant 'A' averaged just over 700,000 barrels a day in April - 270,000 below March's level - but a return to full production at the Fulmar field partly offset the loss.

A series of shutdowns left only 28 of the 38 UK fields operating but some were expected to re-open later this summer.

Mineral water sales soar

By Lisa Wood

MINERAL water sales in the UK are still growing at a much faster rate than any sector of the soft drinks industry, according to a review of the market by Perrier (UK), the market leader.

Total sales of bottled water in 1988 were up by 30 per cent over the previous year, said the report. It estimates that more than 170m litres of mineral water were drunk last year.

The market, now worth £130m, has grown by 145 per cent in the last three years and

the industry forecasts sales will reach £200m by the early 1990s.

UK consumption in 1988, at three litres per capita, still lags well behind that of most Continental countries. France heads the league table with 83 litres a head.

Of the 30 plus brands of mineral water available in the UK, Perrier, Evian and own label account for 72 per cent of the total market, leaving only 28 per cent to be shared by other UK, Italian, Swedish, Belgian and French waters.

INVESTIGATION INTO THE CLAPHAM JUNCTION RAILWAY ACCIDENT

FINAL DAY

Final submissions on the evidence presented to the Clapham Junction Investigation, will take place at Westminster Central Hall, Storey's Gate, London SW1, on Tuesday 6 June 1989 at 9.30 am.

Counsel for each represented party will have the opportunity to address the Court referring to the written submissions which they will have prepared in advance. Reference copies will be available for members of the public.

Any enquiries should be made to the Clapham Junction Investigation Secretariat on 01-276 0838.

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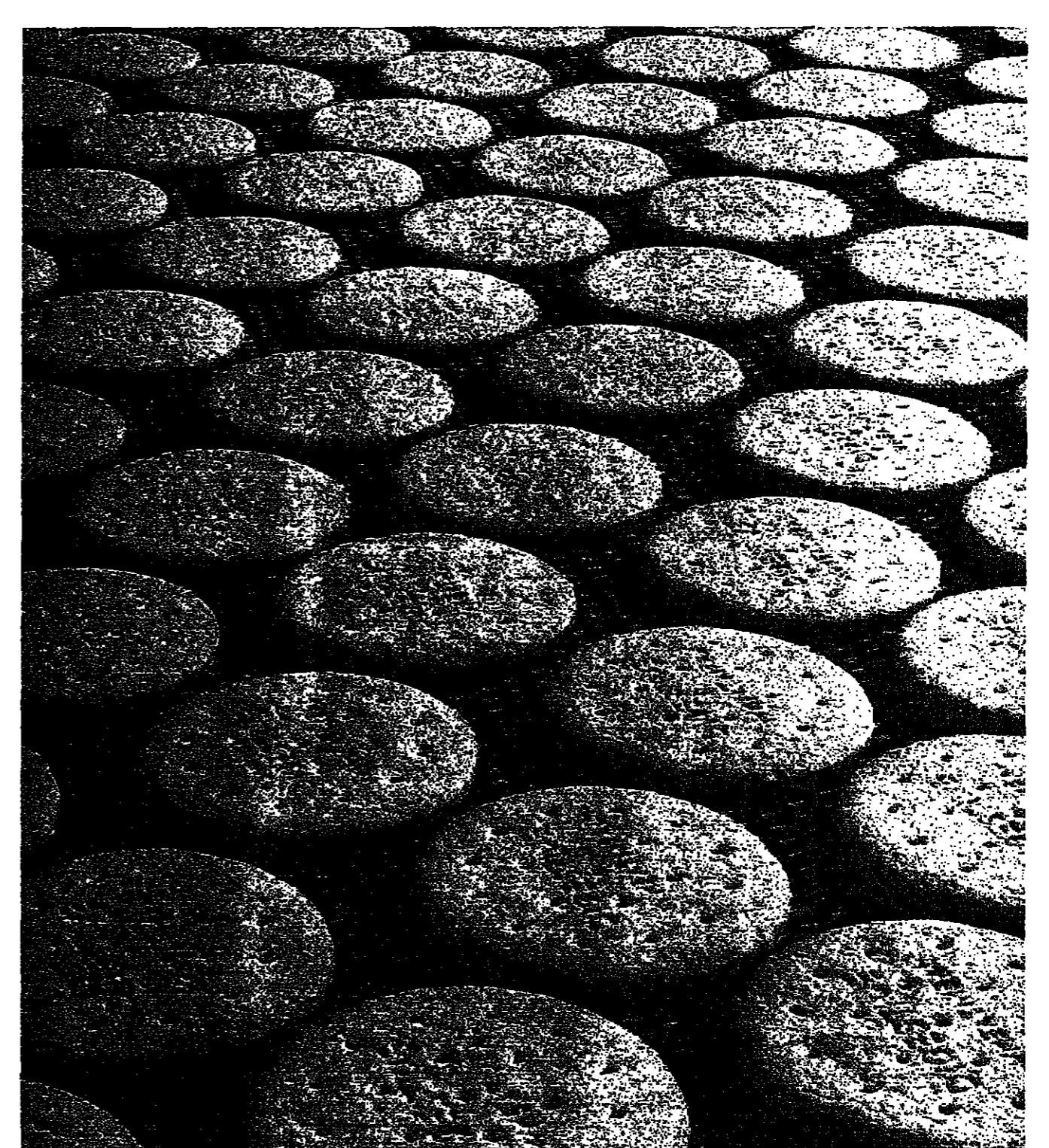
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UK NEWS

Union prepares to call docks strike

By Charles Leadbeater, Labour Editor

THE TRANSPORT and General Workers Union seems almost certain to call a national dock strike if port employers fail to win an injunction against industrial action in the Court of Appeal this week.

The appeal, following the High Court's refusal last Saturday to grant the employers an injunction, is expected to start on Thursday and is likely to last only two or three days.

The TGWU's regional secretaries, national officials and local docks officers will gather at the union's London headquarters on Wednesday to lay

detailed plans for the strike. Each of the union's 9,400 registered dockers will also receive a letter from Mr Ron Todd, the TGWU's general secretary, outlining the union's dispute strategy.

The move comes almost seven weeks after the union's national docks committee first considered a strike ballot over plans to abolish the National Dock Labour Scheme, which has regulated most dock work since 1947.

Mr Bill Morris, the union's deputy general secretary said yesterday the union would not

be seeking further talks with port employers for negotiations to replace the statutory scheme with a national agreement.

The union has to call a strike by June 15, 28 days after the close of this strike ballot, in which dockers voted by three to one for action.

Mr Nicholas Finney, director of the National Association of Port Employers conceded a strike now seemed inevitable, following the High Court ruling that the union was pursuing a lawful trade dispute rather than a political protest.

Mr Justice Millett said the

employers had only a remote chance of showing the strike was aimed at forcing the Government to withdraw its legislation, rather than reaching a national agreement.

Mr Finney said the employers could not compromise on their insistence that terms and conditions should be governed by local agreements.

The TGWU wants local talks over pay and changes to working practices to be conducted within a national framework covering training, overtime and shift rates, sick pay and health and safety.

Dockers chart a steady course for industrial action

A port strike appears inevitable, reports Charles Leadbeater

THE CONFLICT over the abolition of the National Dock Labour Scheme, which regulates employment in most of Britain's ports, is about to shed the political and legal garb which has shrouded it for the last seven weeks, to emerge as a purely industrial dispute.

On Thursday, port employers are expected to start their appeal against Saturday's High Court ruling that the strike was a lawful trade dispute rather than a political protest. It seems likely that the appeal will fall after Mr Justice Millett warned the employers their chances of gaining an injunction preventing the TGWU transport union from proceeding with the strike were very remote.

Mr Bill Morris, the TGWU deputy general secretary, said yesterday: "If the appeal goes our way, we are all set for go. We have not come this far to snatch defeat from the jaws of victory."

Neither the union nor the National Association of Port Employers (Nape) are prepared to call for talks or a reference to Acas, the conciliation service. A strike from next week, involving the 9,400 registered dockers in about 63 ports covered by the scheme, seems almost inevitable.

The strike will be the fourth phase of the TGWU's strategy: perhaps the most carefully-laid union plan this decade for an industrial dispute.

The first phase - to establish an agreed position within

the union - began the day after the Government's announcement on April 6 that the scheme would be abolished in July.

The union's national docks committee had expected to call an immediate strike ballot. But Mr Ron Todd, union general secretary, intervened, arguing that a strike aimed at pressuring the Government to change its mind was bound to fail. He urged the committee to call a strike aimed at pressuring employers to replace the statutory scheme with a national collective agreement.

A special meeting of the union's general executive council on April 14 finally backed Mr Todd. Since then, the national docks committee, the dockers delegate conference, the executive and national officials have been marching in step.

That provided the foundations for the second phase, which lasted almost five weeks, aimed at preparing the ground for a legal trade dispute with port employers.

The leadership delayed calling a strike ballot to distance the vote from the Government's move, thereby making it more difficult for the employers to argue that the strike was political.

They held talks with the National Association of Port Employers to show the issue was a trade dispute to be settled across the negotiating table rather than the floor of the House of Commons.

The union adopted some of



Marching in step: Bill Morris (left) and Ron Todd

the communications techniques commonly used by companies to win working loyalty. Dockers received copies of the union paper at home detailing Mr Todd's case, within supporting letters from Mr John Connolly, the union's public officer.

The union's legal advisers had been involved from the start. They came into their own in the crucial third phase - the court hearing, which started on May 19. The High Court's decision means the union can proceed with a strike, free from the threat of being crippled by further legal action, fines or sequestration.

But the court's sanction may also defuse the strike as a political issue. Having first called for negotiations, the union is on the verge of conducting a lawful, democratic strike. The court ruling will make it harder for employers and ministers to attack the union.

With the legal and political gloss stripped away, the fourth phase can now begin - the underlying industrial dispute.

The union is confident it can win, with the dockers' patient anger channelled through a tightly controlled, centralised strategy to force the employers into national talks.

Dockers voted for industrial action by 6,383 to 2,191 in a 90.8 per cent turnout. The ports under the National Dock

Labour Scheme handle about 70 per cent by volume of non-oil trade. A recent poll suggested more than 70 per cent of companies would be hit by a strike. The union says the strike will be solid, and employers will come under increasing pressure to settle.

Ports under the scheme account for only 47 per cent of trade by value, however, down from about 80 per cent in the 1970s. Major employers such as Associated British Ports (ABP) which control about 26 per cent of UK port capacity and the Port of London claim that between a half and two-thirds of their cargo would be unaffected.

ABP has an incentive to sit out a long dispute. It expects to gain £20m a year within three to five years as distribution and warehousing companies are attracted to deregulated ports.

Employers believe the union's disciplined strength will be sapped by the flow of trade through non-scheme ports and revolts at small ports which have not voted for a strike.

The dispute will have to go through at least one more phase before it ends - a negotiated settlement. The question is whether that will take place nationally or locally; and, at the moment, there are few signs that that phase will reach an easy conclusion.

London rail drivers set for 24-hour stoppage

By Charles Leadbeater

THE LONDON Underground railway seems almost certain to be hit by a further 24-hour unofficial strike by train drivers this week, despite a plea from Aslef, the drivers' union, to postpone action until an official ballot is considered.

Mr Derek Fullick, Aslef's general secretary, said yesterday he thought it was unlikely the action would be lifted despite his call last week for normal working. Mr Fullick said the three day bank holiday weekend would have made it difficult for the organisers of the action to spread word that the strike should be suspended.

He said he thought it unlikely the strike would start today, but said it was quite likely on Wednesday or Thursday.

Mr Fullick said he had been told the leaders of the unofficial action had not dismissed his call out of hand. "When people are running something unofficial like this they are all geared up and it is very difficult to stop it," he said.

Aslef's executive is expected on Thursday to consider calling an unofficial ballot over the extension of driver-only trains. The union's leadership believes an official ballot would be the most effective way to reassess its authority over the dispute.

The unofficial action, which has hit London Underground four times in the last month, has prompted employment Ministers to consider introducing legislation aimed at preventing wildcat strikes.

CBI MONTHLY SURVEY

Gloomy outlook for industry as orders record steady fall

By Michael Prowse

THE OUTLOOK for British manufacturers is deteriorating, warns the Confederation of British Industry in its May survey of industrial trends, out today.

The proportion of companies reporting below normal order books exceeded those reporting above normal orders for the first time since January 1987. Export orders, on balance, were below normal for the eighth month in succession.

The downturn in industrial orders, taken with last week's sharp decline in retail sales, provides further evidence of a rapidly softening economy.

"The Chancellor's medicine has already started to work," said Mr David Wigglesworth, chairman of the CBI's economic situation committee. "And the further increase in interest rates to 14 per cent could be damaging to British industry."

The survey found 24 per cent of companies had below normal orders and 19 per cent above normal orders. The negative balance of 5 per cent contrasts with strong positive balances recorded throughout 1988. Demand was weakest in textiles and most buoyant in mechanical engineering.

Export orders were weaker than domestic orders, with 27 per cent of companies reporting below normal order books against 18 per cent with above normal orders. The negative balance of 9 per cent confirmed the downward trend which began last summer. Orders were weakest for small companies.

The orders figures reveal a significant narrowing in the gap between domestic and export demand in recent months. As orders reflect the pattern of future production, this suggests manufacturers

may be switching production from home to export markets as development eagerly awaited by the Treasury.

The survey's findings on stocks, output and prices are relatively encouraging. With the exception of motor vehicles, food, drink and tobacco, stocks were considered to be more than adequate to meet demand.

Some 31 per cent of companies said they expected output to increase over the next four months, while only 13 per cent forecast a decrease. The positive balance of 18 per cent, while healthy, was well below the strong growth expectations of last year.

The balance of companies saying they expected to be able to increase domestic prices over the next four months was the lowest since last September, suggesting a lessening of inflationary pressures.

Interest Rate Change

Allied Irish Banks plc announces that with effect from close of business on 26th May 1989, its Base Rate was increased from 13% to 14% p.a.

Allied Irish Bank

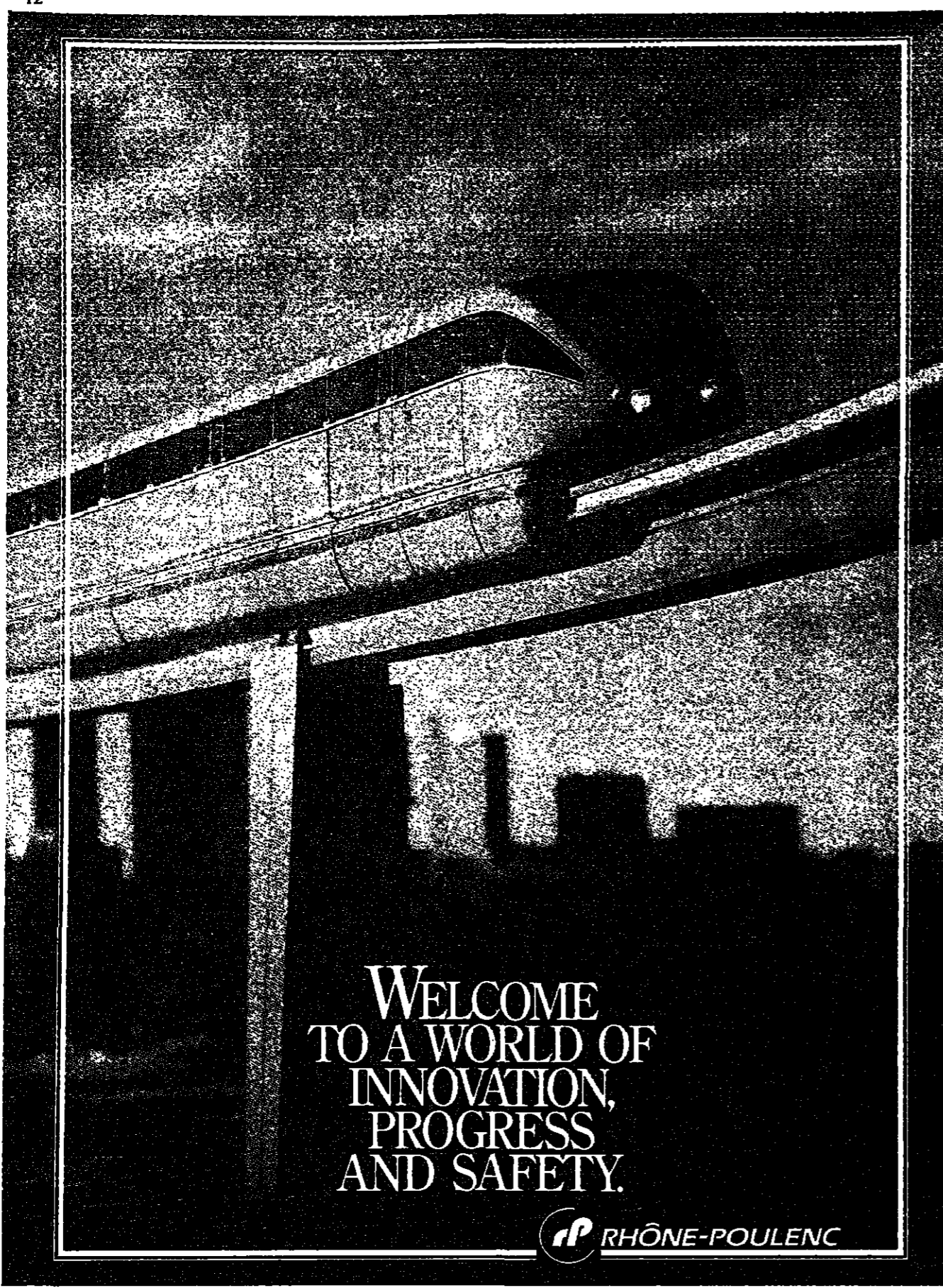
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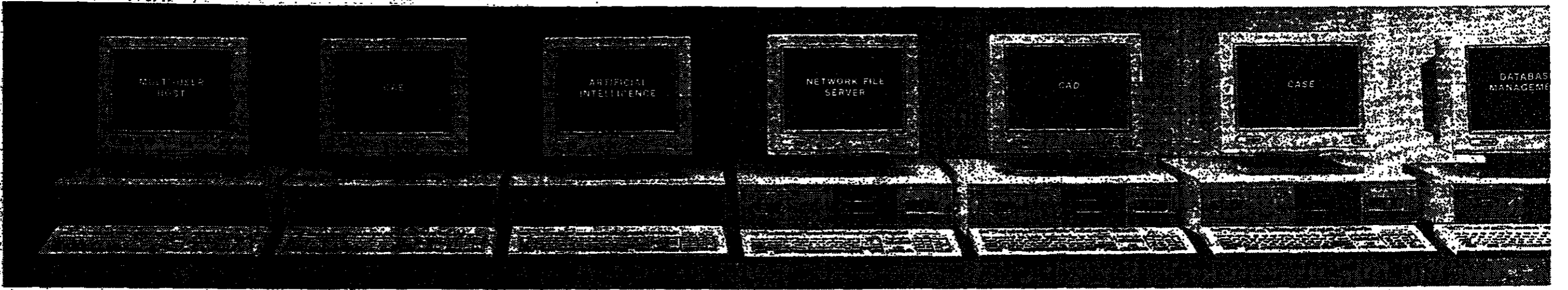
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UK NEWS

Trade surplus for VCR and TV producers

By Terry Dodsworth, Industrial Editor

UK PRODUCERS of colour televisions and video cassette recorders achieved a trading surplus in the first quarter of this year after several years of heavy deficits.

The swing to a positive trade balance follows several years of mounting investment in British manufacturing by Japanese and other overseas consumer electronics companies. All the large-volume producers in the industry are now foreign-owned.

According to the British Radio and Electronic Equipment Manufacturers' Association the first quarter surplus amounted to £13.4m for colour televisions and £2.6m for VCRs. The association described the figures as "very good news for the UK".

Television producers earned a slight £400,000 surplus in 1987 but ran up an £11.9m trade deficit last year, when imports amounted to £236.1m against exports of £228.2m. The VCR industry, which was largely developed in Japan, has never before achieved a positive trade balance in the UK. The deficit has been falling

sharply in recent years, however, with the rapid growth of production in Britain, which only began at a significant level five years ago. Last year the imbalance was virtually halved to £96m compared with £182m in 1987.

Despite the turnaround in colour television and VCR trade the UK is still running a substantial overall deficit in the consumer electronics sector.

Component imports for use in British assembly plants are not counted in the association's figures, and despite the development of UK sourcing these purchases are still very strong.

At the same time trade in audio products remains in substantial deficit. Although first quarter statistics are not yet available, the association's figures show that in 1988 Britain imported £34.4m worth of music centre equipment against exports of £23.7m, leaving a deficit of £10.7m.

In compact disc players, the deficit came to £68.1m, with imports of £73.6m and exports of only £5.5m.

Publicans warn of closures and price rises

By Maggie Urry

A MAJORITY of pub landlords think beer prices would rise sharply in recent years, however, with the rapid growth of production in Britain, which only began at a significant level five years ago. Last year the imbalance was virtually halved to £96m compared with £182m in 1987.

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Minister turns a blind eye to planning calls

Hazel Duffy explains why London boroughs are dissatisfied with official policy

PLANNING directors in 35 London boroughs and the City say that the Government has side-stepped the issue of how to make the capital a better place in which to live and work.

Members of the London Planning Advisory Committee (LPAC), representing all the boroughs, agreed this week that they would "try yet again to persuade Mr Nicholas Ridley to provide the sort of strategy which London needs to plan for the 1990s."

Their criticism is directed at the draft strategic guidance which Mr Ridley, Secretary for the Environment, published in March. Mr Ridley had taken advice from LPAC before drawing up the guidance under the mechanism which the Government set up for London after abolishing the Greater London Council.

The planners and councillors believe, however, that he has turned a deaf ear to much of their advice.

London is split politically. There are 14 Tory boroughs, 15 Labour boroughs, three controlled by the centre parties and the City, which is independent. Despite this, agreement is unanimous.

The problem is that the Government does not believe in strategic planning. Instead it believes in delegating planning powers to the local council

level (boroughs in London). Mr Ridley says it is for local people, not the Environment Department, to decide where developments go.

The council's say delegation is fine in principle but the Government must be more specific on the framework.

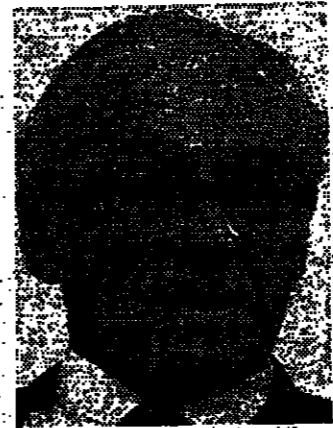
It must indicate, they say, the way it wants London to develop. Then councils - which are obliged to take the Government's guidance into account - could plan accordingly.

Where should the new shopping centres be situated? Which boroughs can provide land for new housing? Where will the new offices go? Should land be set aside for light industry? Where do the Government's plans for transport and new roads in London link in with land utilisation?

The need for planning has probably never been more pressing in the booming capital. Building sites in the City testify to the scramble for office space, sparked by growth in the economy generally and the expansion of financial services specifically.

Construction workers' helmets have replaced bowlers as the symbol of the City.

Congestion on public transport reflects the growth in jobs, visitors and prosperity which has concentrated in London over the last few years.



Nicholas Ridley: no desire to plan where people live

Jammed roads are the result of increased car ownership; the inadequacies of public transport and the fact that goods must be delivered to shops day and night to meet demand.

But London also has pockets of wretchedness. High unemployment in some inner London boroughs, ethnic minority tensions and a desperate shortage of cheap living accommodation illustrate the widening disparities in wealth which are characteristic of US cities.

The solution of economic and social problems demands decisions which affect land use, say the boroughs. These decisions cannot be purely local. No borough sees itself as

an island. The last attempt at planning in London was the Greater London Development Plan produced by the Greater London Council, which was the strategic planning authority for the capital. It was modified after an inquiry in the 1970s.

Nobody claims that the GLDP has been a success. Parts of the plan, particularly relating to new roads, were never implemented. Yet no one speaks for London as a whole these days. The framework for planning in the city has been drawn up by a unit at the Environment Department.

The LPAC, set up in the wake of the GLC, laboured for two years. Its general document reflected its own past. It centred around a vision for London: the capital as a world centre of trade and business, but also a civilised city where residential neighbourhoods would be stable and secure. Its idealistic preamble was backed by concrete plans.

Six months later, Mr Ridley sent out his guidance, emphasising the business future of London. There were just vague references to meeting social and employment needs.

Development was to be encouraged in Docklands but LPAC's suggested growth centres were ignored and there was no hint that the brakes had to be applied in central

and west London. On transport, it did no more than restate the plans and various studies already announced by the Transport Department. It provided no basis for co-ordinating land use and transport policy.

Every borough will be required to draw up a plan for its area, based on the Government's final guidance.

As it stands, Labour councillors see the guidance as a licence for developers to build where they want, not necessarily in the city's best interests.

Tory councils are less condemnatory, but they too are unhappy about much of the guidance, fearing its loose wording will provide a bonanza for lawyers and expect developers to appeal increasingly against council decisions.

Mr Ridley is not likely to be moved. He does not want to put any restrictions on development south-east of London or the south-east other than those in the green belt.

"I believe that it is better not to plan where everybody is going to live and work, but to make them take their decisions in their own economic interests," Mr Ridley said recently.

LPAC will continue to press its viewpoint, as post-GLC planning moves into the closing phase. But it seems to have been a complex and ultimately meaningless exercise.

Ecu fund to invest in unquoted companies

By Charles Batchelor

QUESTER, Capital Management, a British venture capital group, plans to raise a £50m (€200m) fund known as the Parquest Venture Partnership to invest in unquoted European companies. Up to three quarters of the funds will be invested in Britain and France, with the remainder going to companies in other European countries.

Parquest plans to invest amounts of between £50,000 and £1m in smaller companies which are attempting to expand out of national niche markets into other European countries. It will also buy out retiring directors of family companies and finance the turn-around of struggling companies.

Parquest has set itself a minimum target of £100m of Ecu 200m but hopes to raise another £50m by first closing date in early summer. CIB Venture Managers, which manages the

venture capital activities of the British Coal Pension Funds, and Banque Paribas of France have subscribed Ecu 6m to the fund. The British Coal Pension Funds and Paribas are both shareholders in Quester. Three other investors, two of them Japanese, have also said they will invest.

Quester will advise the new fund on its UK investments while Partech Associates, a Paris-based group, will advise on French investments. The new fund has been established in the form of a UK limited partnership and will have a 10-year life.

Quester has raised four funds - three under Business Expansion Scheme rules since 1984 and has £12.5m under management.

Parquest is the second Ecu-denominated venture capital fund to be set up in the past two months.

Newcomers spark 'fierce competition' in furniture

By Maggie Urry

A SHAKE-UP in the £5.8bn a year furniture and carpet retail market has started, after years of poor service to consumers, according to a report on the industry from Verdict, the retail research group.

"There is massive scope for the more aggressive retailers to create a competitive edge through distribution, individuality and product style," Verdict concludes.

Fierce competition can be expected in the coming year, the study says, because new entrants are coming into the market just when consumer spending is squeezed by high interest rates and when house moving has slowed.

Furniture sales have largely missed out on the consumer boom of the mid-1980s, Verdict says, although in 1988 sales rose by 12 per cent.

If says furniture shops have been drab places, filled with poor products, unimaginatively displayed, typified by brown suites and teak veneer wall units. Customers have received poor service, notably on deliv-

ery. As a result per capita expenditure on furniture in the UK is low compared with other developed countries and the trade has often resorted to price cutting.

It has taken the arrival of outsiders such as Marks and Spencer and Ikea, the Swedish-owned group, to push established players into improving.

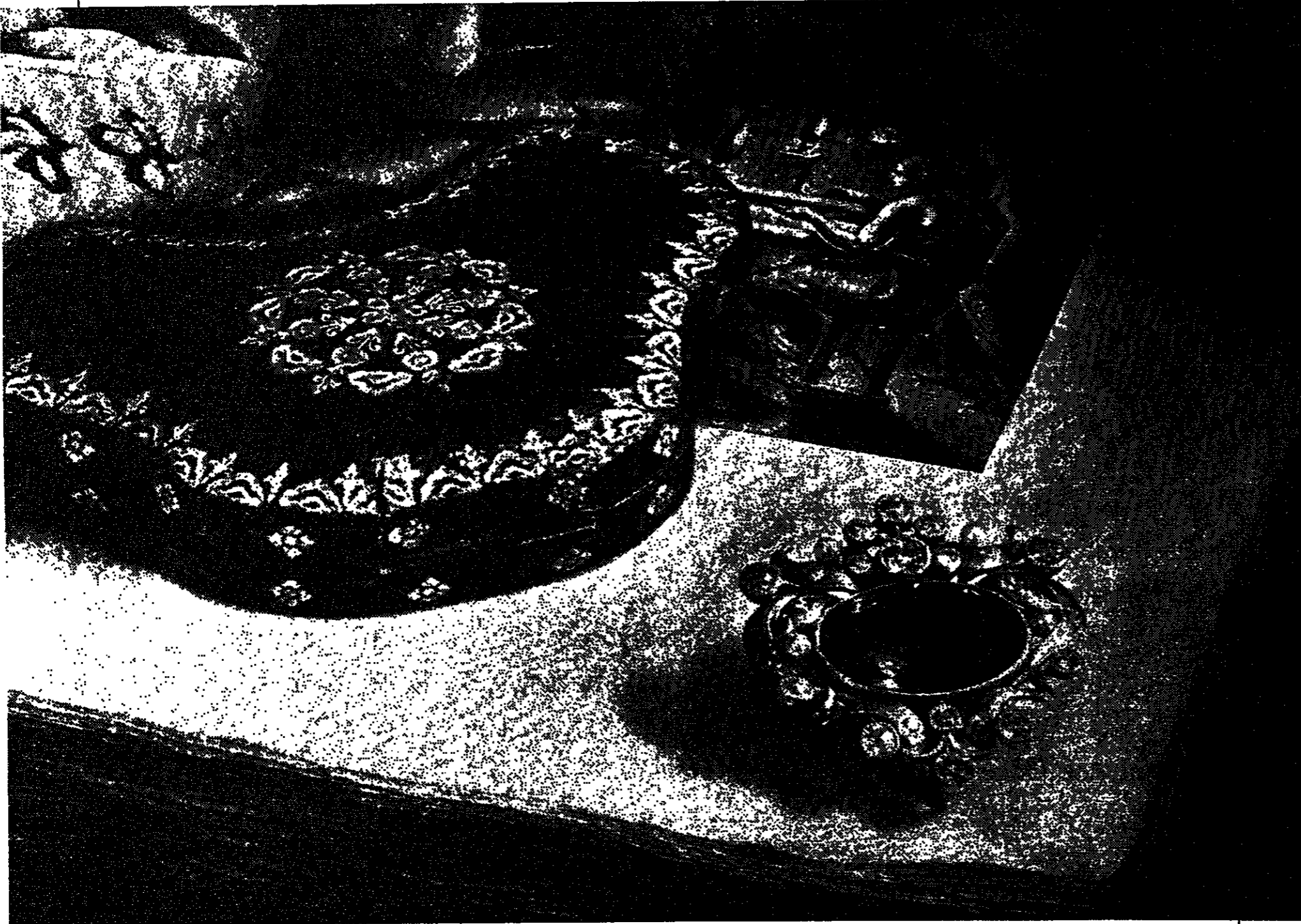
It will take heavy advertising to persuade customers that things have changed, though, as visits to furniture shops are rare.

There are no overwhelming powerful leaders in the sector, Verdict says. MFI, which has made its reputation in flat-pack furniture, has the largest market share with 6.8 per cent. Lowndes Queensway is a close second with 5.4 per cent.

Only four other chains have more than 1 per cent of the market.

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MANAGEMENT: The Growing Business

Pricing More than cost plus

Charles Batchelor explains why, for too many companies, what to charge for a product is an arbitrary decision

Marlborough Millinery Models, a manufacturer of model soldiers and historical figures based in Pontycymer, South Wales, recently launched a range of Indian warriors who fought on the slopes of the Ganges in 1857. Because of the intricate pattern of rainbow stripes on the turbans, the price of a set of six of the warriors at £26, more than double its usual price.

Other competitors for reasons other than price. For the small company price is usually the least effective weapon. It normally lacks the resources or a large share of its markets to use price as a means of defeating the competition.



Jan Scroby: Thought that she had "gone over the top" with pricing of a new Indian warrior model range

They must be seen carefully if the company is not to give away all of its profit margin. In the food sector on the Continent, for example, discounts to buyers and to customers are an important part of the price calculation.

Red tape goes on growing

Government regulations must be large sums of money with a disproportionate part of the burden falling on the smaller company. Despite attempts in many countries to reduce the cost of red tape many officials concede that the most that has been achieved has been a slowing down of the rate of increase.

those of their colleagues. Businesspeople, in contrast, have to deal with all of them and have to keep informed about government requirements as well as run their businesses.

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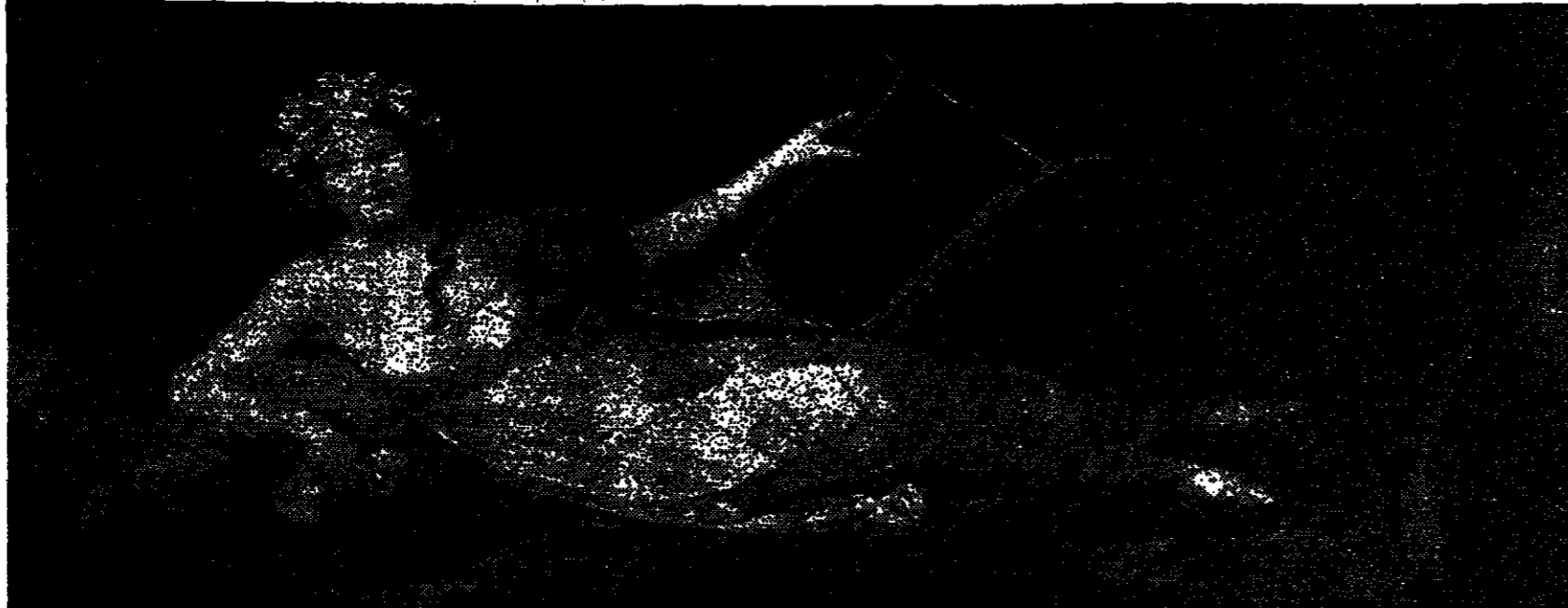
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SCOTT BADER



Goya's portrait of the Marquesa de Santa Cruz, 1805

Goya: captured the spirit of his age

Denys Sutton reviews a major survey of the artist's work, currently in New York

Francisco Goya (1746-1828) is one of the most unusual and brilliant artists of his period, not only on account of his technique but his powerful and at times almost lurid imagination. He bridged two worlds, that of the late 18th century with its pastoralism and delight in charm and that of the 19th century with its turmoil and revolution.

The realism evident in the later portraits is not necessarily Spanish: this sort of approach may be found in North Italian painting, and Goya had visited Lombardy on his trip to Italy in 1770. His ability to respond to the new style that emerged at the turn of the century recalls J.M. David's development, but he never became such a rigid neoclassical painter as the French master. Goya's skill in creating his own version of the radical movement of the day is revealed in his alluring portrait of the Marquesa de Santa Cruz with a lyre of 1805 in the Prado. This picture helps to explain Manet's passion for Spanish art.

Obviously it is valuable to know about the personalities of Goya's sitters and their backgrounds. The catalogue suggests that the portrait of Goya's friend Jovellanos, a leading apostle of the Enlightenment, dating from 1768 (Prado) depicts him reflecting on "the grave responsibilities of his position" as Minister of Justice and Religion. Yet in the last analysis the impact made by this portrait and others of the same sort lies not so much in their content (however this may be interpreted), as in their visual qualities - the bold brush strokes and golden-hued paint that indicate the furniture in this picture, or the grip of the handling of the plumes on the hat and the rich sash in the portrait of Ferdinand Guillemardet, 1778 (Dowry), executed with a sharpness of vision worthy of Stendhal.

Goya's circle included many of the most fascinating Spaniards of his time. One of these was Bartolomé Sureda, who combined a love of art with the drive of an entrepreneur and who spent several years in England. Goya's portrait of him of 1804-6 in the National Gallery of Art, Washington DC is especially brilliant: once again appreciation of it depends less on our knowledge of the sitter's life than on an awareness of the way in which Goya renders the "still life" of the hat with its red lining and the delicate grey tonalities of the coat that are contrasted with the white and blue colours of the cravat and shirt.

As the theme of the exhibition is essentially an intellectual one, and as it seeks to make a contribution to cultural history, it should have contained a section devoted to those publications and other documents that constitute the background to the Enlightenment in Spain. Obviously the subject matter of many of the drawings and prints, which are admirably selected, is closely connected with contemporary problems and preoccupations; but what about the portraits? It is tempting to ask if most of these reveal Goya, as an exponent of Enlightenment; if may well be that we read into them information gleaned from the catalogue.

Portrait such as those of the Condesa-dugna de Benavente, 1785 (March Foundation), or of the same sitter and

her family of 1788 in the Prado (she has married the Duques de Osuna in 1771 but was generally known under her maiden name) are typical 18th century compositions in which emphasis is placed on fashion and domesticity and, as such, they may be related to much English or French portrait painting of the era.

There are two views of *Lélio*. One is that it is a ridiculous farrago, a youthful folly of Berlioz's, a cul-de-sac from which he soon extricated himself; the other is that it is an early ancestor of the concert-hall music-theatre which became such a preoccupation of composers in the 1960s and 70s.

Berlioz

Brighton Festival

The final two concerts in this year's tricolour-dominated Brighton Festival formed a little Berlioz festival in themselves - the *Symphonic Fantastique* and its seldom-performed sequel on Saturday, *La Damnation de Faust* on Sunday. The concerting exhilarating experiences both, combined the efforts of the City of Birmingham Symphony Orchestra and the Brighton Festival Chorus, and demonstrated that Simon Rattle is on the way to becoming one of the world's important Berlioz conductors.

The Fantastic Symphony, a symphonic argument which disposes a journey to hell, is one of the staples of musical life: its sequel, *Lélio, or The Return to Life*, a monodrama for speaker with musical insertions, is a rarity. The first work does not "need" the second. In the spoken passages of *Lélio*, Berlioz pours out his passions - for Shakespeare, for the contemporary Philistines - and around them he assembled numbers already in existence. The *idée fixe* from the symphony is hinted at in the dying moments; but no real dramatic coherence informs its structure or joins the two works.

Two thrilling Berlioz journeys. One slight limitation in both performances may have been the fault of the Dome's dry acoustics: the lack of distancing and suspended animation in the symphony *Adagio*, and in all those moments in *La Damnation* where a single voice or strand of colour is left suspended over a void.

Rattle's enthusiasm for Berlioz seemed at these points a little too insistent, lacking in the feeling of detachment that acts as the opposite pole to the composer's high-Romantic ardour. (But, particularly in the second concert, he may also have been provoked by the heavily rickety coughing that barracked the musicians continually, until finally his exquisitely courteous plea for audience muteness and mufflers succeeded in damping it down.) The chorus, even though without the bright high tenors so often required by the music, were in vital, well-prepared form; the *Damnatio* soloists were Maria Ewing (a Marguerite treading a fine line between exquisitely and mannerism), David Rendall (a well-schooled Faust not in his best voice) and Willard White (strong-singing, not yet wholly inside the Berlioz style). The concerts were sponsored by American Express and Seaboard.

Max Loppert

The Tempest

BARBICAN

Such a consistently thought out and masterfully handled production, backed up by technical accomplishment and sheer stage know-how, shows the production is the real deal, and indeed current work as the callow fooling romp it is. Nicholas Hytner's *Tempest* is the most proficient of the offerings so far transferred from Stratford to the mini-Metropolis in EC2. Michael Coveney's original welcome in these pages can only be repeated: in the proviso, perhaps, that in both theatre and opera Hytner is emerging as a cerebral director rather than one who touches the heart. He thinks with clarity but feels less generously, or at least less obviously.



John Wood

reveals a limitless blue horizon, provides haunting moments on its raked-out stage. The music composed by Prospero is truly magical: through the gauze appears a field of golden corn studded with poppies as peasants from a Millet canvas perform an elegiac country dance. Here as elsewhere (notably in the distant voices accompanying Ariel in "Full Fathom Five") Jeremy Sams' elusive music does indeed create an Isle full of noises, sounds and sweet airs.

Paradoxically (or predictably) the main fault with the production lies in the over-emphatic speech. This is certainly the reverse of the frequently uncomprehending disregard of sense and sensuousness that mars most young actors' approach to Shakespeare. Everything is *haïkissè*, stressed, underlined, circled almost out of context. The emotional Prospero that John Wood gives us makes a meal of the "goose-goose" palaces and throws in the odd emphasis to boot ("OUR little life is rounded with a sleep").

Free from the corny accretions of traditional stage business, in the case of Desmond Barritt's Trinculo speaking lines with a slow plaintive dryness which makes them sound wittier than they are, the young lovers are certainly adequate. Dusan Brown's eldritch music does indeed create an Isle full of noises, sounds and sweet airs. Free from the corny accretions of traditional stage business, in the case of Desmond Barritt's Trinculo speaking lines with a slow plaintive dryness which makes them sound wittier than they are, the young lovers are certainly adequate. Dusan Brown's eldritch music does indeed create an Isle full of noises, sounds and sweet airs.

Martin Hoyle

Hair

QUEEN'S THEATRE, HORNCHURCH

"This is the one where you can get on the stage and dance if you want to," said the lady behind me to her friend as we settled down at Hornchurch for a walk in nostalgia in the Age of Aquarius. She had forgotten that someone would also sing "Masturbation can be fun, join the Holy Order Kama Sutra, Everyone."

Twenty-one years after *Hair* became a sensation in New York and London, it is salutary to recall that it was not even shocking then. It mouthed hippie slogans for bourgeois consumption in a barely coherent story of draft-dodging, transcendental meditation and communal urchin rebellion. Hashish and sodomy were hymned. *Hair* flowed as freely as everything else: free food, free love. "Free Nelson Mandela" shouts a Hornchurch hippie, just for the updating hell of it.

Oh dear. Was this really the show that jumped on the grave of the Lord Chamberlain with its rude words and nudity? Princess Anne joined the cast on the Shaftesbury Theatre stage. I remember, and Anna-Leventon stuck a flower up my nose. What *Hair* always had was some wonderful singing-melodic rock music by Galt MacDermot, notably the title-tribal number, a couple of wistful ballads and one of the best Shakespearean settings since John Dowland. "What a Piece of Work is Man," full of shifting rhythm and emphasis.

anti-pollution, the book and lyrics of Gerome Ragni and James Rado concentrate on scater-junk satire and an apocalyptic acid trip in which Claude goes to get the gooks and is killed. The cast mourn him by removing their wigs, placing flowers on the stage and letting in the sunshine in that famously insidious finale. All this is fine, but getting in and out of lesser items is the musical's chief structural weakness, and incessant tinkering by the authors, and the Hornchurch directors - Bob Tomson and Bill Kenwright, has not improved anything.

with a wittily reflective screenplay by Michael Weller, and a gangster mollifier of the hard and gritty rock beat of the original. The mistake has been to suppose you can both revive *Hair* as a period piece and pander to a new audience. A dismal scaffolded design is dominated by Glen Wiloughby's gigantic Statue of Liberty head. It all reeks, tactically, of the spirit of the thing to do, surely, was to do the piece exactly as it was in a fresh design. Meanwhile, this ungainly hybrid will depart in the second week of June on a nine-month tour.

Michael Coveney

ARTS GUIDE

MUSIC

London

The London Philharmonic, with the Brighton Festival Chorus, conducted by Lorin Maazel, with Jessye Norman (soprano), Gary Fales (tenor), Samuel Ramey (bass), Berlioz, Royal Festival Hall (Tue) (928 8800). English Chamber Orchestra, conducted by George Malcolm, with Hironi Okada (piano), Maciej Rakowski (violin), William Bennett (trumpet), Bazak (Horn), Chamber Orchestra, with Marjolein Blaauw (violin), Antonio Ros-Marbà conducting, Haydn, Mozart, Elgar (Thu), Bournemouth (928 8800) (Wed).

Paris

Ensemble Orchestral de Paris, conducted by Myoung-Gook Park, Salle Pleyel (Tue) (4630789). Spohr, Landowski, Mozart, Salle Gaveaux (Tue) (4632330). Paris Opera Orchestra, conducted by Lother Zagrosek, Roellier-Zimmermann, Paris Opera (Tue) (4742871). Orchestre de Paris, conducted by Daniel Barenboim, with Marina Argerich (piano), Mozart, Gounod, Beethoven, Salle Gaveaux (Wed) (4630789). Baroque Trio, Brahms, Gounod, Salle Gaveaux (Thu) (4630789).

Brussels

Belgian National Orchestra, conducted by Georges Octave, in the

final round of the Queen Elizabeth Arts Award. Performances include: Les Pastoreaux Chorus accompanied by Waterloo Chamber Orchestra, conducted by Ulysses Schmitt, with Nicole de Calliat (soprano), Mozart, Egilte St Joseph, Waterloo.

Amsterdam

Barbara Bonney (soprano), accompanied by Geoffrey Parsons, Wolf, Richard Strauss (Tue). Netherlands Philharmonic Chamber Orchestra, with Antonio Ros-Marbà conducting, Haydn, Mozart, Elgar (Thu), Bournemouth (928 8800) (Wed).

Rothterdam

Netherlands Philharmonic Chamber Orchestra, with Marjolein Blaauw (violin), Antonio Ros-Marbà conducting, Haydn, Mozart, Ravel (Tue) Doelen (418 2490).

Vienna

Wiener Festwochen, annual festival of music dominates the scene in Vienna after its opening on May 11 and continues through to June 18. Wiener Sinfonieorchester, conducted by Claudio Abbado, with Marina Argerich (piano), Mozart, Beethoven, Schubert, Brahms, Konzerthaus (Thu), Bournemouth (928 8800) (Wed).

Opera and Ballet

London

Royal Opera, Covent Garden. The latest showing of the splendidly staged and superbly produced *Traviata* is well conducted by Stephen Barlow, but the cast is uneven.

Paris

Opera, York Hoeller's world premiere of *Le Maître et Marguerite* conducted by Lother Zagrosek, John Burdick in Hans Neuenfels's production is inspired by Mikhail Bulgakov's novel describing the Devil on the loose in Stalin's Moscow (4742871).

Brussels

Théâtre Royal de la Monnaie. *L'Incoronazione di Poppea* by Monteverdi with Caterina Maltamo as Poppea, Maria Toroswaldi as Nerone, all conducted by Sylvain Cambreling, orchestrated by Philippe Boesman, staged by Luc Bondy (Wed).

Chicago

St Paul Chamber Orchestra conducted by Christopher Hogwood, featuring Handel, Mozart, Pergolesi, Orchestra Hall (Tue) (463 6666).

Tokyo

Moscow Philharmonic Orchestra, conducted by Vladimir Kratny, Kisevko, with Vladimir Kratny (piano), Tchaikovsky, Glinka, Suntory Hall (Wed) (506 1010). Tokyo Symphony Orchestra, conducted by Jukka-Pekka Saraste, Sibelius, Mahler, Suntory Hall (Wed) (506 1010). Ensemble Wien, Mozart, Dvořák, Schubert, Tokyo Sunka Kalkan (Thu) (363 1651).

Rome

Teatro Dell'Opera. Lively production by Mauro Bolognini of Francesco Cilea's *Adriano Lecocquer*, conducted by Daniel Oren. Tatiana Kabaivanska is excellent as the tragic heroine, with a fine supporting cast which includes Alberto Cupido, Ivo Vinco (30.51.26).

Milan

Teatro Alla Scala. American soprano, Kallen Esperian sings the title role in Verdi's *Lucia Miller*, taking over from Katia Ricciarelli who was roundly booed by the gallery at the opening performance on May 2. Also in the cast are Giuseppe Giacomini, Paola Bureluade, Susanna Assietti and Alberto Cupido, conducted by Zoltan Pesko. Also Francesco Cilea's *Adriano Lecocquer*, with Mirella Freni, Peter Dvornik and Alessandro Cassia, conducted by Giannandrea Gavazzeni (30.51.26).

Berlin

Opera: Theater des Westens. *Rigoletto* in Hans Neuenfels' production features Angela Denning, Ingrid Wixell in the title role and Victor von Haebler. Also a ballet evening *Les Interférences du Coeur*, with choreography by Roland Petit.

Bonn

Opera: *Ariadne auf Naxos* stars Edita Gruberova, Helena Doose, Peter Lindorff, Richard Cowan, William Murray and Susann Mentzer. *Die Entführung aus dem Serail* returns with a new

May 26-June 1

Frankfurt

Opera: *Iphigenie in Aulis* by Gluck with its premiere this week. The new *Ivo Schwaiger* production features Pia-Marie Nilsson, Frederick Burchinal, Renate Behle. The successful Graham Vick production of *Cost for Love* is revived. *Rusalka*, resplendent with Eva Randova, Clary Bartha, June Card, Manfred Schenk and Allan Glassman. *Rigoletto* has Jonathan Summers in the title role for the first time.

Munich

Opera: Three operas from the Ring cycle, *Das Rheingold*, *Die Walküre* and *Siegfried* all conducted by Wolfgang Sawallisch. The main parts are excellently sung by Mariana Lipovsek, Kurt Mall, Sabine Haas, Hildegard Behrens, Rene Kollo and Robert Schunk. *Rigoletto* has a first rate cast led by Francisco Ariza, Mariella Devia and Juan Pons. Also in repertoire: *Il Barbiere di Siviglia*.

New York

New York City Ballet. The 90th New York season continues with mixed programmes featuring *Sixt Suite*, *Misdirection*, *Night's Dream* and *Slaughter on Tenth Avenue*. Ends June 25. Lincoln Center, New York State Theatre (877 4700).

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THEATRE ROYAL, DRURY LANE

We have been here before, the young girl singer-songwriter who expresses the fears, joys, hopes, and banalities of her life through poignant poems around which hang plaintive, gossamer, melodies. Tanita Tikaram is a fine specimen of the type only in her rapid rise from the ranks of Basingstoke sixth formers to a multi-million selling first album in a couple of years.

young girl's fantasy. They are less café sophisticated than those of her American contemporary Suzanne Vega, and deal with more mundane subjects, the bit "Good Tradition" being about the pains and pleasures of family life. "Poor cow" about the Saturday night market in the local district. The irritatingly addictive, never quite turning out as facile as they initially suggest, the obscurity of some of the words forcing you deep into their mystery.

Still only nineteen, she spent the weekend playing at the grandest showcases in London at the Theatre Royal, Drury Lane on Sunday and the Palladium last night. These were very clever venues for her, the plush of showbiz history contrasting with the stark simplicity of her performance. She made no attempt to storm the stage, she won instead the sympathy vote of packed collections of fans who were reverent, too reverent, in awe and admiration. Wearing dark grey convent school uniform above black stockings, obviously intent to hide her body just as her songs disguise her soul with their elusive lyrics, she treated the audience at Drury Lane with remote detachment, not gushing, but not too timid either. At first you are amazed she dares front the band - her voice sounds as if it comes from beyond the grave and lacks variation or sweetness. But her five piece band is hot and strong made amusing by the inclusion of a saxophone to the far left and a violinist to the far right.

It is good that this style of creating a tiny world years ago by Joni Mitchell and her like, should be enjoying a revival. There is an inevitable similarity about the genre and searching for the nearest parallel to Tanita it is hard not to hit on Marianne, another slender flower child enjoying a comeback. There is the same little girl ingenuite touch, covered with a necessary toughness. It is easy to switch off at a Tanita Tikaram concert but soon you find yourself plugging in again. She seems capable of adding an unexpected twist, that outside view, perhaps a legacy of her outside origins - she came to southern England from a childhood in Germany and with Malaysian and Filipina parents. She is a promising young filly, who has won all her maiden races: whether she can stay the course over longer distances is uncertain. But the ease with which she has adapted her personality suggests that she can.

But you are there for the songs, for the glimpses into a

Antony Thorncroft

Louis Benjamin retires from Stoll Moss

Mr Robert Holmes A Court, Chairman of Stoll Moss Theatres, has announced that Mr Louis Benjamin will retire as President of the company on September 30. Mr Roger Filer is appointed managing director with immediate effect. Benjamin, who joined Stoll Moss as an office boy 32

years ago, has held every important administrative post in the company. Stoll Moss currently controls a dozen of the West End's leading commercial theatres, including four on Shaftesbury Avenue, and accounts for 32 per cent of all theatre seats in London's commercial sector.

Tuesday May 30 1989

Judge and jury

LAST WEEK'S US decision to name only Japan, Brazil and India for unfair trading practices marked a milder interpretation of last year's Trade Act than had at one stage been expected. But relief at this outcome must be tempered with foreboding in view of the parallel announcement that the Bush Administration is to seek wide-ranging talks on economic adjustment with Japan.

The citation of Japan for priority trade action under the so-called Super 301 clause of the Trade Act for its specific policies with regard to wood products, satellites and supercomputers pales into insignificance compared with these broader negotiations. Their vaguely worded remit far transcends trade policy. It highlights, instead, the entire bilateral relationship between the world's two economic superpowers.

The presumption in Washington appears to be that the Japanese economy (and so Japanese society) can be changed by negotiation into something similar to that of the US. The attempt, itself illegitimate, is, in any case, sure to fail. Though seen as an alternative to managed trade, these negotiations would appear to have no other likely outcome. If so, the world's most important bilateral economic relationship would have been moved out of the embrace of the market and into that of politics.

Internal struggle

Taken together with the Super-301 list this leaves little room for complacency about the direction of US policy. The decisions were reached only after fierce internal struggle inside the Bush Administration. A number of ancillary warnings have been issued, including one to the European Community on intellectual property rights. And the decision to single out Brazil and India must remain a point of concern.

Brazil and India do practice protectionism, but their policies are no worse than those of most developing countries. Nor have those policies been proved impermissible under their international obligations. It looks as though the US is punishing the two countries

Ireland's good two years

ALMOST entirely by coincidence, Mr Charles Haughey, the Irish Prime Minister, announced a premature general election in his country in the same week that his Government reached agreement with Britain on the review of the working of the Anglo-Irish Agreement. Not at all by coincidence, the Irish election will take place on June 15 the same day as the elections to the European Parliament.

Those events together form a useful peg for taking stock of developments in the republic and in Anglo-Irish relations. Mr Haughey's latest premiership has been in many ways his most successful. He has led a minority Government which has presided over considerable improvements in the Irish economy. There has been a resumption of economic growth and the country has been enjoying its first trade surplus since 1987. Inflation is down below 3 per cent and the Irish currency has held its own within the exchange rate mechanism of the European Monetary System.

High unemployment

There is a very strong view, however, that Mr Haughey's present Administration has only achieved as much as it has precisely because it lacked an overall majority. The main opposition parties have been notably supportive of the basic economic policies, including some cuts in public expenditure. It is also true that while the economy may have turned round in the last year or two, some serious defects remain. Unemployment is still at around 18 per cent, net emigration, which includes the loss of skilled young people, continues to run at over 30,000 a year, and, by the standards of the European Community, perhaps a quarter of the population is living in poverty. Ireland is the third poorest member after Greece and Portugal. Thus, although the recovery is genuine, there is still a long way to go.

The most heartening conclusion after the last two years is that the country as a whole has become more realistic both about the constraints on its development and about its opportunities. It is a small country trying, not without

for the obstructive role they have been thought to play in the Uruguay Round talks on trade liberalisation with respect to two objectives that the US holds dear: liberalising trade in services and agreement on new rules on protecting intellectual property rights.

Another explanation for their place on the list is that other countries which were equally vulnerable to demagogic attacks sharply this year. Indeed Mrs Carla Hills, the US Trade Representative, has already expressed her satisfaction with the way in which the threat of being named prompted reform efforts in a number of countries.

Bad principle

But short term expediency is a bad principle. The fundamental problem for the multilateral trading system is that the US, its founder and ultimate guarantor, has altered the balance of its policy. It will abide by its agreements when convenient, but it will also break them when convenient and woe betide any weaker country that crosses it. This aggressive approach strikes at the heart of the multilateral system not because of the unilateralism alone, but because agreements reached in the course of multilateral negotiations might be scrapped whenever the US unilaterally decides they should be. What then is the value of such agreements?

The fundamental problem for the international economy is that the US now seems to be embarked on a course likely to end up with managed trade with Japan. The EC may follow suit and, in time, they and others are likely to find this the preferred approach when dealing with such uncomfortably competitive trading partners. That would hurt them, their trading partners and the international economy as a whole. It would, indeed, throw away one of the fundamental sources of success of the market-oriented economies in the post-war world.

success, to make its way in a wider community. Mr Haughey's minority Government has been pragmatic.

Security lapses

Much the same may be said about the working of the Anglo-Irish Agreement. It has been neither the cure-all nor the disaster that some people predicted when it was signed in November 1985. It has survived a change of government in Dublin. The agreement was signed by Mrs Margaret Thatcher and Dr Garret FitzGerald, not by Mr Haughey, as Taoiseach, came to live with it.

There have been some terrible lapses in security as the IRA gained access to new weapons, but, by and large, cross-border co-operation has become the rule rather than the exception and is still increasing. In the past the heads of the respective police forces in north and south were scarcely on speaking terms; they now meet regularly. And, in the north, there may even have been some political rewards. The local elections earlier this month showed some decline in support for the extremist parties: Sinn Fein and Mr Ian Paisley's Democratic Unionists. Mr Peter Robinson, once one of Mr Paisley's hard-line lieutenants, has softened his approach.

Thus the agreement goes on. It will be extended to co-operation in other fields: health, energy, transport and agriculture, for example. That is entirely appropriate within the context of the EC. Britain and Ireland are learning that they are two quite different countries who have to live together.

It is understandable that Mr Haughey now wants to break out of the constraints imposed by minority government. He may claim to have lived down some of his earlier reputation for recklessness, both on the economic and the political fronts. There is also a perfectly practical case for going to the polls on the same day as the elections to the European Parliament. Yet the constraints imposed by the lack of a majority in the Dail were in many ways helpful and the electorate may remember that the opposition parties, too, played a constructive role in what has been a good two years for Ireland.

David Buchan begins a series on next month's European Parliament elections

There is at last a smell of real power emanating from the European Parliament, that unique experiment in transnational democracy designed to give the European Community's 262m voters a direct say in Europe's future.

The voters' five-yearly chance to exercise this right comes around again in elections on June 15 in the UK, Ireland, the Netherlands, Denmark and Spain, and on June 18 in the other seven EC states.

Going by the past pattern of the 1979 and 1984 direct elections (before 1979 members of the European Parliament were nominated by their national parliaments), only an average of about 60 per cent of EC voters will actually bother to cast a ballot. Turn-out could be higher this time. Ireland and Luxembourg are holding general elections on the day of their Euro-poll. National election fever is running high in the Netherlands, Italy, Spain, and Germany, where the Euro-election results will be read for what they portend in forthcoming national polls. In the UK, where less than one in three of those eligible voted in 1979 and 1984, interest in, and conflict over, Community issues, is running at an all-time high.

There is, of course, still a powerful turn-of-factor. Some of the 518 members of the European Parliament (MEPs) are seen to be more interested in perks than power.

But those elected this time round and whose mandate will run to 1994, will have a good deal to say on the future of the Community's single market programme and the new drive to balance this with a comprehensive social programme for Europe.

Under the 1987 Single European Act the parliament acquired more powers than it had gained in the previous quarter of a century, including certain rights to amend or reject EC legislation and to rule on many of the Community's foreign treaties. And it may not stop there.

Even if the parliament does not initiate anything itself, it might try to hold the initiatives of others — such as those governments wanting a fresh treaty on economic and monetary union or the admission of new EC member countries — hostage to its own demands for more power.

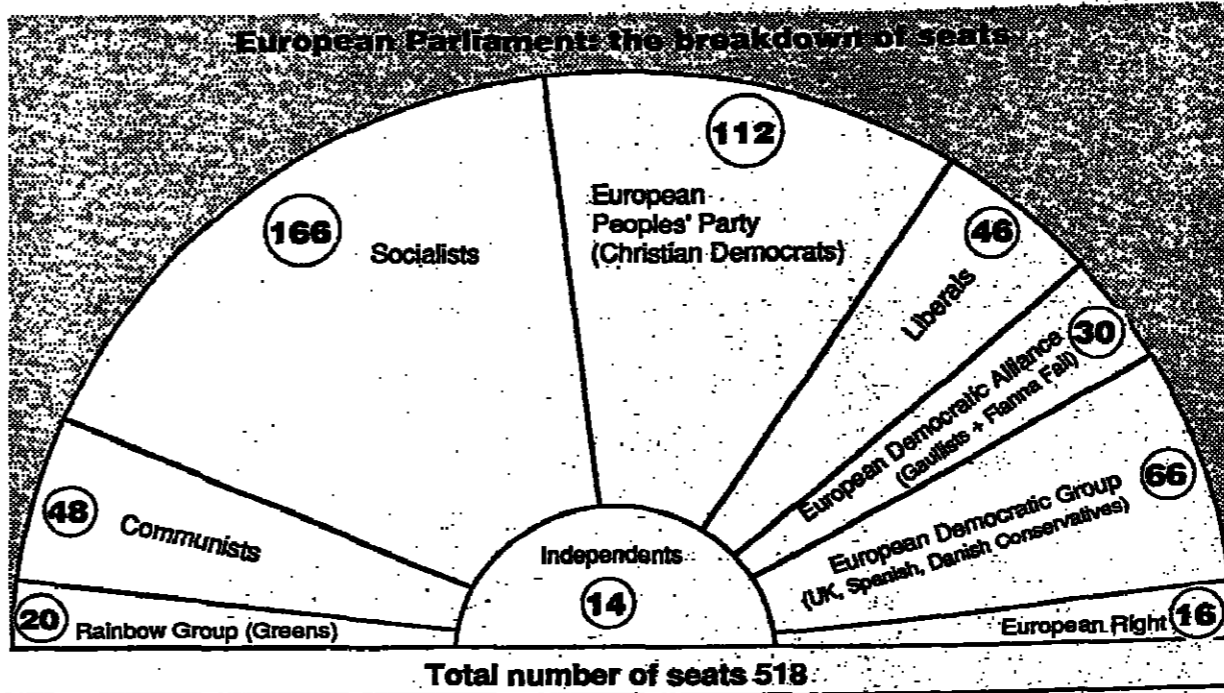
Closely linked, too, to the parliament's future remit are the ambitions of the European Commission. Its president, Mr Jacques Delors, has predicted that in 10 years, 80 per cent of decisions on economic and social matters will be taken at Community level.

That forecast, not so implausible in the context of the Single European Act, has set on edge the teeth of many national leaders and parliaments, not only those of Mrs Margaret Thatcher and her Westminster colleagues. British reservations are aggravated by the fact that Westminster, with its ill-developed committee system, is one of the 12 national legislatures least suited to effective scrutiny of what goes on in Brussels.

However, the central point is that even the most exacting national scrutiny system, like the Folketing's EC committee that keeps Danish ministers on the tightest of reins, is of no avail when ministers can be outvoted on many matters within the Council of Ministers. What has come to be called the "democratic deficit" can probably only be made good in Strasbourg.

There are other reasons to cast a vote next month. One is the new relevance of the way that the 518 MEPs divide themselves along rough ideological lines into eight groups, ranging from the Communists and Greens on the left, through the big battalions of Socialists and Christian Democrats in the centre, to the small, far right led by Mr Jean-Marie Le Pen, leader of France's National Front.

The ideological pattern is complex, especially to those used to the clean cleavage of a two-party system. The



Seats per country

UK	81	Belgium	24
W.Germany	81	Portugal	24
France	81	Greece	24
Italy	81	Denmark	16
Spain	60	Ireland	15
Netherlands	25	Luxembourg	6

A mandate which goes beyond 1992

main European political "families", of Communists, Socialists, Christian Democrats and Liberals (who are to the right of their UK counterparts) are well represented. But the right is not homogeneous. Nationalist sentiments, among other things, divides France's Gaullists and Flamma Fall of Ireland from the UK Tories.

As long as issues like agricultural policy dominated the debate, with divisions more along national lines (and with, for instance, British Conservative and Labour MEPs all for reform and all French against it), the parliament tended just to duplicate the national clashes taking place in the Council of Ministers. It is also true that much of the detail of EC issues remains highly technical and thus non-ideological, and that when an issue like French blocking of British lamb exports up there is a quick national regrouping.

However, the new agenda is more likely to divide members on "left-right" lines. It encompasses the proposed EC social charter for workers rights, and even environment and consumer protection. These issues are already leading to realignments among the parliament's eight groups. Spain's right-wing Partido Popular, for instance, having decided to realign with Christian Democrats at home, is deserting the British Tories whom it finds too opposed to Community social legislation.

If these issues are to be debated in these terms, Strasbourg is clearly the place to do it. However, it does not, so far, suffer from the surfeit of ideology that afflicts Westminster. A continen-

tal preference for compromise is reinforced by the nature and size of the Socialist and Christian Democrat groups, and a voting rule that makes them want to join forces where possible. This requires 260 votes or an absolute majority of all MEPs for amendments to, or rejection of, most EC directives.

Voters should also be aware that they are no longer sending political envoys to Strasbourg. The European

parliamentary aggrandisement. But even this is changing through the five-year deal reached last year under which it got some say over agricultural spending, in return for conforming to Council decisions in other areas of expenditure dearer to the European Parliament's heart.

And there are two new levers the parliament can bring to bear. One is called the co-operation procedure. This gives the parliament a powerful say on that internal market legislation which the Council can decide by majority voting. On these issues, the former can on second reading amend or reject a Council decision, provided it can muster 260 votes to do so.

What happens next depends on the Commission, which is the transmission belt between the Council and the European Parliament. If the Commission accepts the amendment, then it takes unanimity among all 12 governments for the Council's initial veto to prevail. But because of majority voting such unanimity is hard to muster.

It is, for instance, precisely because of such an parliament/Commission alliance, that the Council now looks likely to accept tougher car emission standards than it agreed to last November. If, on the other hand, there is a parliamentary amendment without Commission support (as on a broadcasting directive last week) or outright rejection (as on a benzene protection measure last year), then the odds are heavily stacked against MEPs. For their view can only prevail in the unlikely event that all 12 governments agree with them.

But, overall, the record is impressive since the Single European Act

Parliament does not have direct control over an executive. But it has the power, which it has never used, to censure and dismiss all 17 (and only all 17) Commissioners. The Council of Ministers is not generally accountable to it, though it has become recent practice for the EP president, in the avuncular form of Lord Plumb, to address the twice-yearly EC heads of government summits. If ex-President Valéry Giscard d'Estaing of France were to succeed in his bid to follow Lord Plumb, it is hard to imagine him being shut out of his old "club".

The European Parliament still only has partial control of Community purse-strings, the traditional means of

Few legislatures can match the European Parliament's record in terms of influence over its executive

Irishman for Washington

A recent Brussels guessing game will shortly be over with the announcement that Eamonn Gallagher, currently Director General in charge of the European Community's fisheries policy, has been named as Sir Roy Denman as the EC's resident ambassador in Washington.

Although no formal announcement has been made, the word is that the nomination of the 62-year-old Irishman has already been approved by key Commissioners and that confirmation is only a matter of time.

Gallagher will be going to Washington during a tricky period in transatlantic relations. He will be expected to ensure to convince a still sceptical American audience that the Community's single market programme is not intended to create a Fortress Europe; to explore Commission president Jacques Delors' ideas for a closer political relationship between Washington and Brussels; and to defuse the tensions that could erupt in the next couple of years over trade. His natural affinity with the Irish-American lobby in Congress is expected to be a big help.

Gallagher's appointment (which will run until his retirement in just over two years' time) will be the culmination of a distinguished career in the Commission, where he made his name as an architect of the Common Fisheries Policy in the early 1980s. Widely admired (and feared), he is the master of compromise, his "double act" with his French colleague, Raymond Simonet, has been largely responsible for keeping the policy afloat.

On the other hand, Gallagher has not got on too well with his new boss — the youthful Spanish Fisheries Commissioner, Manuel Marín. This has given him some spare time

OBSERVER

to improve his golf, which will also be useful in Washington.

Hitching

During last week's unofficial strike on the London Underground, it is to be recalled, a man tried unsuccessfully to get on to a crowded single-manned bus, arguing with the driver that at times like these, London buses owed it to the population to be more flexible. The bus driver stuck to his rules and regulations on passenger limits, and the banker was ejected.

Refusing to be beaten, he went into a stationery shop, bought himself a card and luminous pen and wrote CITY in large letters under the heading on the pavement, held up the card and, within seconds, was picked up by a car with air conditioning. It was another banker taking a more predictable way to work.

More of us may be resorting to hitch-hiking this week. Indeed why don't drivers with empty places put a card in their window offering lifts?

Country folk

Grateful to this week's edition of The Economist for pointing out that the very first edition of The Archers, an everyday story of country folk now celebrating its 10,000th episode on BBC Radio 4, began with the following exchange between Dan Archer and his farmhand over the grunts of a cow in labour.

Dan: "Well, Simon. What d'you think? Simon: "Ah well. 'Er might, and 'er mightn't".

That was on Whit Monday, 1950. The Archers is not like that any more, and has not been for a long time. But, for a certain generation, there is that touch of "For Ever



England" about it. What I cannot understand is why the BBC World Service did not quickly take it up, and broadcast it daily and extensively around the globe. There would always have been a British citizen somewhere who would have felt a kind of nostalgic happiness for Ambridge.

75 not out

A. H. Hermann, for long our Legal Correspondent, is leaving us this week. At the age of 75, he will become Senior Research Fellow on International Trade Law at Queen Mary College, London, a post endowed by the City law firm, D. J. Freeman & Co.

Hermann was born in Bohemia in 1914. When I first met him in 1968 he said he had spent almost half his time in prison. His life was disrupted first by the Nazis, then by the Communists in Prague who, in 1950, sentenced him to 12 years for high treason. He had been Economic Secretary in the Ministry of Trade.

Among his many stories is that of when he first began to write for Western papers from Czechoslovakia in the mid-1960s: then — and even now — a rare event. Hermann seldom saw the papers he wrote for and was besieged by telegrams saying: "Please, use the Benter style."

The Benter style consists of putting the most important point first, and the rest in descending order of importance. It was impossible for him to pass this message that if he did that, everything would be censored.

Early in 1968, and before most other people, he realised the importance of Alexander Dubcek and started to write about him.

Hermann left Czechoslovakia when the Prague Spring was put down by the Soviet Union and has deserved to live happily ever after. Anyone who sees him should encourage him to get on with his memoirs, which so far extend only to 1948.

Wrong match

Thailand has been generous to the last days of the European soccer season, covering four matches live on television, three from Britain and one from Italy. Even Bangkok's legendary bars have found their customers distracted by football. Some began to offer free fish and chips at half-price for those who came to watch the entire match at their establishments.

In such a full-blooded capitalist setting, the stream of advertisements interrupting the game, regardless of the state of play, was only to be expected. But there was one slight twist. Most of the first half of the FA Cup Final between Everton and Liverpool at Wembley was accompanied by crowd noises and commentary from the Scottish Cup Final at Hampden Park.

Boucheron
 Jeweller since 1858

80 New Bond Street, W1Y 9PD, LONDON

James Buxton explains why Body Shop chose Easterhouse in central Scotland rather than the Third World for a soap factory

Tackling the 'sump'

"WE WILL have failed by 50 per cent if we don't provide a role model for other companies," says Mrs Anita Roddick, managing director of Body Shop, surveying her latest creation.

This is not a new soap made with herbs flown in from the Amazon rain forests — though something like that might come later — but a large factory located in Easterhouse.

Easterhouse is a vast area of grey council flats, forbidding shopping parades and litter-strewn open spaces on the eastern fringe of Glasgow. Male unemployment among its 50,000 people is put at 37 per cent. It has been ungenerously described as a "sump" — the place where the human residue from other parts of Glasgow accumulates.

Mrs Roddick came to look at Easterhouse last year after a community leader from the area pointed out to her that while her highly successful natural beauty products company was making a point of helping Third World countries, it was ignoring Britain's own Third World. The inner cities of England and the peripheral housing estates of Scotland.

Her visit to Easterhouse "was one of the most aesthetically depressing experiences of my life," she recalls. Afterwards, she persuaded her husband Gordon Roddick, Body Shop's chairman, to see for himself. After considering setting up a plant making recycled paper, he decided to locate the company's first soap factory on the Glasgow industrial estate in Easterhouse, near the site of a demolished Olivetti typewriter plant that once employed 4,000 people.

The Soap Works, as it is called, has got underway in the last few months. It tries to employ people who have either never worked before or who are long-term unemployed and give them the heightened morale that comes from being part of a friendly and successful company.

At present there are 24 full-time and five part-time employees making vegetable-based perfumed soaps. The aim is to raise the workforce to 100 by the end of next year as the soap plant expands and begins making talc powder. As well as providing employment, the Soap Works intends to put 25 per cent of its after-tax profits into a foundation devoted to projects in Easterhouse.

Body Shop has never been a conventional company. For example, all its products are biodegradable and its total of nearly 400 shops worldwide offer a refill service for its bottles. It uses recycled paper where it can, and naturally based products wherever possible. The franchisees who run most of its shops may be asked to contribute to special funds. The UK franchisees have just raised £23,000 for a playground in Easterhouse.

The formula is highly successful. The quoted company is one of the best performing niche retailers in Britain, with profits up by 56 per cent last year to £8.3m on sales of £46.2m. It is currently going



Body Shop's "model" for other companies presented by Mrs Anita Roddick (left)

through another surge of expansion. "We're chiming in with the environmental upsurge," says Mrs Roddick, "although we were environmentally conscious long before it became fashionable."

As part of its mission to help developing countries where many of its raw materials and product ideas come from, Body Shop has set up local operations in Nepal, South India, Bangladesh and in a Mexican refugee camp in Texas. But much of its production comes from factories near its headquarters at Wick near Littlehampton in Sussex, where it employ 700 people.

"It certainly would have been more conventional to set up the Soap Works near Littlehampton," says Mrs Roddick. "But it's more fun, more motivating and better for morale to do it here. It's not economic in terms of transport but it's easier to inculcate our ideas here." Body Shop is investing about £1m in Easterhouse. "We've found no problem with the people here — that was a myth," she says.

"Although some of them have never worked before, there's a work ethic here that you don't get in the south-east. People have a sense of pride in what they are producing."

Soap Works employees are paid the same rate as Body Shop's workers at Littlehampton, giving them 40-50 per cent more than the local going rate.

They also receive two weeks training in Littlehampton and London in the Body Shop culture.

One aim of setting up the factory, she says, is to provide a role model for other companies to operate in Easterhouse "where angels fear to tread" — and take advantage of abundant labour supplies. Body Shop could start similar plants in other deprived areas of Britain, she muses, or move more production to Glasgow.

People in Easterhouse have mostly reacted warmly to the arrival of the Body Shop circus. But some evidently think Mrs Roddick takes a somewhat patronising attitude to the place. "To hear her speak about angels fearing to tread you might think Body Shop was the only industrial employer in Easterhouse," says one sceptic who did not wish to be named. "But as you can see, her plant is on a small industrial estate surrounded by several busy factories."

Mr Bill Crow, who runs the Greater Easterhouse Partnership, a local enterprise trust, points out that Body Shop's vaunted "social" aims are more like a PR exercise — taking a close interest in their health and welfare as well as their work — is thoroughly praiseworthy. "But it is not unique," he says.

He is disappointed that Body Shop has stayed aloof from the Partnership, which is sponsored by leading companies such as British Telecom and United Biscuits. He acknowledges that these companies, unlike Body Shop, have not set up plants in the area, but they have established a valuable training centre and workshops for small businesses. However, he admits that Body Shop will "have a demonstration effect which could attract other companies to the area."

Mrs Roddick has not so far said how the money from the Soap Works foundation will be spent, though with the factory still being expanded profits are not expected for two years. She talks of creating "the best library for kids you've ever seen" in Easterhouse.

Mr Crow says: "We've already got an excellent library. I'd rather see the money from the Soap Works foundation get underway here which must be the priority."

Do Body Shop's shareholders object to the way the company is using its resources? "The big shareholders are people like me and my husband and my mum," she says. "Anyway our shareholders know about our ideas — we're the only company in Britain that educates its shareholders. In 10 years time this sort of operation will be the norm."

FOREIGN AFFAIRS

Satisfying the urge for change

Edward Mortimer compares the approaches taken by the Chinese and Soviet party leaderships

them in the West: few pictures, and no television footage — only voice-over reports with an old still of central Peking in normal traffic conditions.

This is quite revealing about the nature of glasnost, at least in its present stage. Glasnost means "giving voice" to hitherto silenced groups in Soviet society, enabling them to join in a debate which is often very sharp but is expected to produce specific solutions to specific problems.

But the media still are, economically and to a large extent ideologically, a branch of the

That does not mean, however, that a considerable Soviet public is not quite capable of noticing what has been happening in China and realising its importance. If the Chinese events are not much discussed in Moscow as yet, the main reason is that the political process at home is too absorbing. Moscow may not yet have seen a million people in the streets, but a comparable shock was delivered to the Soviet system by the elections to the Congress of People's Deputies, spread out over the last two months. At least in

The clear implication was that liberalisation depends on Mr Gorbachev's survival in power.

state. The Western idea that they have a direct responsibility to their public, independent of the state, and consequently a duty to describe what is happening no matter what political conclusions may be drawn, is not yet widely accepted or even perhaps understood among Soviet journalists.

In domestic affairs this means that the Government can be criticised, and events embarrassing to it can be reported, but only when the report implicitly or explicitly points to a preferable alternative. Where there is no obvious solution, as in the Armenian-Azeri conflict for example, discretion tends to prevail.

In foreign affairs one can question aspects of government policy but it is evidently not considered responsible to highlight a problem for which the Government has no ready answer or interpretation. At present the Chinese demonstrations clearly fall into that category.

party apparatus which had hitherto governed in their name, quite as forcefully as the people of Peking and other Chinese cities did by camping in the streets.

The great difference is, of course, that Soviet citizens were responding to an opportunity deliberately accorded to them by the party leadership. Mr Gorbachev himself has not so far incurred the opprobrium attaching to Deng. People still give him credit for initiating perestroika and look to him for support and protection against the reactionary forces lurking within the party, including its highest reaches.

The point was made with brilliant delicacy in the congress yesterday by the historian, Roy Medvedev. Intervening in the debate on Mr Gorbachev's choice for the major Russian cities and in the Baltic republics the people expressed through the ballot box their repudiation of the Vice-President, Mr Medvedev

said he supported Anatoli Lukyanov precisely because he was a very old and close associate of Mr Gorbachev, going back to their student days. It was important, he said, that the President should have a genuinely like-minded deputy because time and again in the last two years when Mr Gorbachev had been abroad or on holiday there had been a "90-degree turn" in government policy. The clear implication was that continued liberalisation depends on Mr Gorbachev's survival in power.

Yet there is no doubt that public faith in Mr Gorbachev took a knock from the way in which the first few days of the congress went. The election of the new Supreme Soviet on Saturday and especially the non-election to it of Boris Yeltsin, appeared a slap in the face for the popular will, given Mr Yeltsin's overwhelming success in the first round of elections to the congress on March 25. At a well-attended meeting in Moscow's Luzhnik Stadium on Sunday loud cries of "shame" greeted the statement that respect for Mr Gorbachev was falling sharply because of his attempts "to silence democratic deputies", and that this was "the most shameful page in his political biography to date."

To an external observer of the congress these criticisms seemed harsh. Mr Gorbachev has, if anything, been rather a lax chairman and democratically minded speakers have had much more of the speaking time than their numbers would apparently warrant. But there was a silent majority of old-style party faithful taking their lead from the platform, and the platform (meaning principally Mr Gorbachev himself) inevitably took the blame for their performance.

We shall probably never know whose idea it was to propose 12 names for 11 seats for the Russian Federation in the Chamber of Nationalities (one of the two chambers in the new Supreme Soviet), or whether they did so on purpose so that Mr Yeltsin should be voted down. What is clear is that reaction in the country — not only in Moscow — unnerved the leadership. It was with obvious relief that Mr Gorbachev yesterday found a way to bring Mr Yeltsin into the Supreme Soviet after all, and so to defuse the immediate crisis.

It is a fair guess that the memory of the crowds in Peking, honouring the memory of the fallen Hu Yaobang and calling for Deng to step down, has been present in Mr Gorbachev's mind during the last few days.

LETTERS

The aim is to land safely

From Mr John Wells.

Sir, Ralph Atkins and Maggie Gray write (May 25) that "the unexpected fall in retail sales figures for April... reinforced hopes of a soft landing for the UK economy with low demand growth eventually feeding through into slower output and falling inflation."

While a reduction in retail sales is probably a necessary condition for a "soft" landing in current circumstances, it is by no means sufficient. Moreover, the fall in retail sales could just as easily presage a "hard" landing as a "soft" one.

A "soft" landing can be defined as a "recession free" improvement in the trade balance consequent upon cuts in domestic expenditure (however induced) which are not associated with any appreciable losses in domestic output or employment.

A "hard" landing, on the other hand, is a situation in which improvements, achieved by reductions in domestic output and employment.

Cuts in domestic expenditure

affect both the traded and non-traded goods sectors. The reduction in domestic spending on non-traded goods and services (primarily construction and "sheltered" services) by definition gives rise to reductions in both output and employment in the non-traded sectors of the economy.

Reductions in domestic spending on traded goods and services (principally manufactures, but also the internationally traded services such as tourism), on the other hand, should not have any effect on the level of traded sector output. By definition, if traded output is not absorbed domestically, it can be switched to overseas markets.

The slowdown in the non-traded goods sector can be prevented from adversely affecting output and employment in the economy as a whole (a "hard" landing), only if the growth of world trade is sufficiently "buoyant" to allow resources to be switched from the non-traded to the traded sector at international competitiveness of traded output is improved — via, for example, a

depreciation of the real exchange rate.

Either of these makes a "soft" landing more likely. Returning to the April fall in retail sales, for evidence of a "soft" landing we would require:

- Improvements in the trade balance (of course);
- The maintenance of output and investment growth in the traded sector of the economy (excluding manufacturing);
- A non-increasing rate of unemployment.

Indications of a "hard" landing (presuming that domestic expenditure has been brought under control) would be:

- A non-improving or slowly improving trade balance;
- Sluggish output and investment performance in the traded sector;
- A halt to recent reductions in unemployment or even increasing unemployment (because of the unfavourable behaviour of employment in the service sector).

The danger in the current situation is that the rise in interest rates required to stabilise the real exchange rate

(with counter-inflation top of the British Government's priorities) will impede successful external adjustment by constraining the competitiveness of the traded sectors of the economy, even as it succeeds in deflating domestic expenditure. This would make a "hard" landing more likely.

The attempt to hold the real exchange rate at a higher level than would be required to achieve a "soft" landing within a reasonable time is all the more surprising, given what the Chancellor said, on May 15 1985, when pressed by the House of Lords select committee on overseas trade to explain how the economy would adjust to a decline in North Sea oil output. "The balance on non-fuel trade, in particular trade in manufactures, will tend to improve, in part responding to the fall in the real — and I emphasise the word real — exchange rate".

John Wells, Faculty of Economics and Politics, University of Cambridge

Highly defined digit

From Mr Brian Evans.

Sir, Competing high definition television (HDTV) technologies have already produced a spin-off for ordinary television viewers: compact disc quality stereo sound from new television sets and video recorders now fitted with the strangely named NICAM option.

It seems unlikely that a single worldwide HDTV standard can be achieved while competing with many existing national TV standards is deemed important. The UK should instead adopt an all dig-

ital HDTV standard, which is broadcast in parallel with current programmes — just like the 405 and 625 line transmissions 25 years ago. Let us reserve the newly found Channel 5 frequencies for HDTV, as proposed by Lord Young's initiative to make more room in the terrestrial radio spectrum by moving BBC2 and Channel 4 on to satellite. What an incentive to buy a dish, whether round or square...

Brian T. Evans, 19 Cassiobury Park Avenue, Watford, Hertfordshire

Cure for the cold war

From Mr Tony Christopher.

Sir, Observer's item on the Chinese cure for the common cold (May 19) is confirmed.

Last autumn my wife and I developed the seasonal cold to end all colds. We had just boarded the overnight train from Yichan to Wuhan. Our young escort, whose wife is an army doctor, produced the box of medicines she provided for travel — including, he said, antibiotics "to be taken only as a last resort."

We tried the Chinese

potions: cubes like oversized Oxo cubes in hot water, and two little yellow pills, repeated again in the morning. By lunchtime the colds were gone.

We are relieved that we had not heard Mr Bentham's story, reported by Observer, beforehand. But — snake dung or not — I would use the stuff again if I could get it.

Tony Christopher, Inland Revenue Staff Federation, Douglas Houghton House, 231 Vauxhall Bridge Road, SW1

Naval nuclear arms cuts

From Mr Colin Hines.

Sir, Reporting (May 24) Captain Richard Sharpe's, the editor of *James's Fighting Ships*, call for the West to take the lead in naval arms control, you failed to mention that the US navy has already begun a weapons disarmament, outside the arms control process.

By 1992 the US navy will have scrapped 1,100 of its short range maritime weapons. The rationale for this, in the words of Vice Admiral Austin, former deputy chief of naval operations for plans, policy and

operations, is: "The concept of a nuclear war at sea is a concept whose time has passed. It is in the interest of the country to persuade the Soviets that the time has passed."

The US navy's unilateral action on short range nuclear weapons, and the rationale produced for this, therefore makes Captain Sharpe's call for naval arms control initiatives by the West, on sea launched cruise missiles, extremely timely.

Colin Hines, Greenpeace, 30-31 Islington Green, N1

Scotland plays hard to get

From Dr Philip McGuire.

Sir, As a frequent traveller from New York to Edinburgh, I read James Buxton's article on *Freestwick* airport (May 18) with interest.

After enduring Kennedy airport (JFK) and a six-hour transatlantic flight, several more hours on a bus winding across Scotland turns a wearing journey into an ordeal.

It makes the status quo intolerable to discover that behind the persisting absence of transatlantic services to

Glasgow or Edinburgh is the Conservatives' desire to prop up the Secretary of State for Scotland's diminishing hold on his AY constituency.

In future I shall join the growing numbers of travellers to Scotland who fly first to London and then catch the hourly shuttle north to Edinburgh or Glasgow. I would urge others to do likewise.

Philip K. McGuire, 869 Orange Street, New Haven, Connecticut 06511, USA

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INTERNATIONAL CAPITAL MARKETS

EUROCREDITS

RTZ heads queue for takeover funds

DETAILS of some long-awaited takeover financings emerged last week with the upsurge in merger and acquisition activity in the UK.

The largest, and the most conventional, of these was the \$3.1bn in loans for RTZ to help finance its \$4.3bn purchase of the mineral assets of British Petroleum. The loans, accounted for by a \$488m rights issue, will boost the company's gearing - net borrowings as a percentage of shareholder funds - from 7 per cent at the end of last year to about 33 per cent.

The financing was arranged by Barclays Bank and J.P. Morgan which, along with Credit Suisse, Deutsche Bank and the Toronto-Dominion Bank, have underwritten the facility.

Tinto Investments, a Canadian subsidiary, will borrow up to US\$700m for five years, paying interest of 0.3 percentage points over the London interbank offered rate. Two US subsidiaries will borrow up to \$2.4bn for eight years at 40 basis points.

Explaining why the terms were not more favourable to RTZ, the company said "these margins reflect the relatively large size of the financing, the long average life of the amortisation schedule (which is designed to optimise the group's tax efficiency) and the large individual bank participation amounts."

The loans, which will probably be refinanced by the company, were launched into general syndication on Wednesday with RTZ relationship banks.

Midland Montagu, which in the previous week underwrote

EUROMARKET TURNOVER (\$m)

Primary Market	Straights	Conv	FRN	Other
ISS	1,367.0	0.0	10.0	10,573.3
Pre	3,458.9	0.0	159.0	1,728.0
Other	381.1	0.0	0.0	1,394.4
Pre	1,230.7	6.3	30.2	2,742.5

Secondary Market	ISS	Pre	Other
ISS	20,128.1	1,087.5	6,787.9
Pre	20,850.3	1,117.4	5,414.9
Other	13,872.6	694.1	2,648.8
Pre	13,328.8	697.1	2,648.2

Week to May 25, 1989	ISS	Pre	Other
ISS	11,946.1	44,369.5	56,336.6
Pre	10,634.9	37,006.4	47,641.3
Other	18,440.6	24,436.6	42,877.2
Pre	21,928.9	28,946.0	50,781.9

Source: AIBD

INTERNATIONAL BONDS

Spotlight falls on price support in new-issue sector

THE FUTURE of trading on the new-issue, or primary, sector of the Euromarkets came under the spotlight last week, as syndicate managers this year, claiming the leading place in the minds of syndicate managers this year.

This time the question on traders' lips was whether new Eurobond issues needed formal price support from the lead manager. They were prompted partly by the realisation that deals without obvious support were struggling in a choppy market.

In the eye of the storm was Credit Suisse First Boston, which in March asserted via Mr Hans-Joerg Rudloff, its chairman, that it would no longer make prices of its new issues to independent brokers.

Mr Rudloff argued that the brokers provided an outlet for intermediaries in an unprofitable market and that by making prices only to its syndicate partners, CSFB would encourage discipline and enhance the efficiency of primary distribu-

tion of the bonds.

In particular, brokers were the normal vehicle by which co-managers could anonymously sell their allocations back to the lead manager if they were unable or unwilling to work at distributing the paper to end-investors.

Many syndicate officials discredited CSFB's policy when it was announced, saying the brokers added liquidity and transparency to a market where the display of genuine prices was vital to credibility.

Last week it emerged that other houses have been consistently bidding on broker's screens for several of CSFB's deals, including Du Pont and the recent Electrolux issue.

This led to comment that CSFB was supporting its issues via third parties, although everyone denied there was any formal arrangement. Some houses involved said they did not agree with the specific policy of not making prices to brokers.

Through the debate aroused by CSFB's policy, it has become clear that the market's original interpretation of the new-issue procedure as primarily an attack on the brokers was wrong. The real intention of the policy was to go to the heart of a contradiction inherent in the current ethos of the underwriting community, a contradiction which many senior managers think will have to be removed if the Euro-market is to survive.

If a bank or securities house believes it can distribute paper to investors as part of an underwriting syndicate, it clearly has the motivation to enter a deal, either buying the whole deal as lead manager or accepting a lower management invitation.

With genuine placement power, a house has no interest in exploiting the anonymity provided by the shield of the independent brokers. However, if it accepts a deal knowing it has no placement power or

without the intention to try to place the bonds, a house can dump its bonds and with them the underwriting responsibility implied by its acceptance of the invitation to participate.

While the brokers undoubtedly provide liquidity and transparency, their activity can also serve to disguise shifting patterns of placement.

Houses can enter deals and lay claim to a share of distribution power within a particular sector, even while their power may in reality be waning or non-existent.

Arguably this allows the excesses of over-competition to endure far longer than they would if a different underwriting system included the open auditing of trading books on the primary bond market.

An indication of how quickly placement power can materialise and evaporate within a sector was shown by last Friday's \$1.5bn seven-year issue for Credit Foncier.

The lead manager was Union Bank of Switzerland, with CSFB and SNF Capital Markets as joint lead-managers. While the mandate was reward for hard work in the Euro sector by UBS this year, it also acknowledged the reality that Swiss investors now supply the most consistent demand for Euro-denominated bonds.

The weakness of the Swiss franc and the discrediting of the D-Mark after the withholding tax episode has turned Swiss investors towards what they now see as the best defensive currency. This shift has combined with the established placement power of the Swiss banks to alter the profile of the Euro sector.

Although it was increased last week, a SNCF 10-year Euro deal was reported to be proving difficult to distribute.

There was well-informed speculation that the maturity of the Credit Foncier deal was set at the instruction of the French Treasury, which over-

sees deals by government agencies. The 10-year deal proposed by Credit Foncier was apparently altered to a seven-year maturity so that it would not compete directly with the SNCF deal.

While this was acceptable both to the agency and the lead manager, it reflects an important shift within the market for origination and syndication of Euro deals.

In the Euromarkets as a whole, resistance to change is sporadic, waxing and waning with the latest illusion that profitability can be restored to the Euromarket without withdrawals from the business.

That there will be damaging withdrawals, however, is becoming more likely as the weeks pass and losses mount. At a strategic level, management can be forgiven for looking at the bottom line and wondering when the buck has to stop.

Andrew Freeman

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Shows Aluminium	150	1994	5	4 1/2	100	Nomura Int.	4.875
Nipponeseo Co.	150	1994	4	4	100	Nomura Int.	4.000
Toyota Motor Corp.	1,500	1993	4	4	100	Nomura Int.	4.000
Austria, Republic of	100	1996	7	6 1/4	101 1/2	Merrill Lynch	8.952
ASLK-COER IFICO	40	1996	7	10	101 1/2	Merrill Lynch	8.952
Interfinance Cr.Nat.(a)	30	1993	1	13 1/4	101	Bankers Trust Int.	14.109
Union Bk of Finland(b)	30	1992	3	11 1/4	101 1/2	Goldman Sachs Int.	11.188
Press Kogyo Co.	100	1993	4	(4 1/2)	100	Nomura Int.	*
Selkie Corp.	80	1993	4	(5)	100	Dalwa Europe	*
Eagle (c)(d)	45	1996	6 1/2	22 1/2	100	Yasuda Trust(Europe)	9.220
Deutsche Bank Finance	200	1990	10	8 1/4	101 1/2	CSFB	9.081
Electrolux	125	1994	5	9 1/2	101 1/2	CSFB	8.896
Monte P Paschi d'Siena	100	1994	5	0	65.205	Nomura Int.	*
Sapporo Breweries	200	1993	4	(4 1/2)	100	Yamauchi Int. (Eur)	*
Mitsubishi Heavy Ind.	1,500	1993	4	(4 1/2)	100	Nomura Int.	*
Alps Electrol	400	1993	4	(4 1/2)	100	Nomura Int.	*
Sata Bank Victoria(f)(g)	200	undated	-	3	101 1/2	Merrill Lynch	9.087
GECC	300	1996	7	8	101 1/2	Kiiler Pesbody	14.427
Rhone-Poulenc Comm.(h)	50	1993	1	15	101 1/2	Societe Generale	*
Olympus Optical Co.	150	1993	4	(4 1/2)	100	Yamauchi Int. (Eur)	*
Suzuki Motor Co.	300	1993	4	(4 1/2)	100	Nomura (Singapore)	*
Dalwa House Ind.	800	1993	4	(4 1/2)	100	Nomura Int.	*
Finnish Ex. Credit(m)	200	1998	10	9 1/2	99.93	Goldman Sachs	9.511
AUSTRALIAN DOLLARS							
Esportifinas	100	1990	1	18	101 1/2	Nomura Int.	16.113
D-MARKS							
National Bk of Hungary	200	1997	8	8	100	DG Bank	8.000
Eurofinco(f)(g)	150	1993	4	8 1/2	101 1/2	Deutsche Bank	8.283
THK Co.(h)	50	1994	5	7 1/2	101 1/2	ISJ (Germany)	7.133
WestLB Fin. Neth.(i)(j)(k)	100	1992	3	8 1/2	100 1/2	WestLB	8.701
SWISS FRANCS							
Nortiz Group(l)(m)	50	1994	-	1 1/4	100	B.della Sviz Italiana	1.125
Sonion Food Ind.(n)(o)(p)	40	1994	-	(3)	100	Nomura Bank (Switz)	0.500
Hokuriku EL Ind.(q)(r)	150	1994	-	(5)	100	Nomura Bank (Switz)	*
Showa Highpolymer(s)	90	1994	-	(1 1/2)	100	Citicorp Inv. Bank	*
Magara Constructio(n)	30	1994	-	(1 1/2)	100	Handelsbank NatWest	*
Magara D'struction(o)(p)	30	1994	-	(1 1/2)	100	Handelsbank NatWest	*
STERLING							
Tobishima Corp.(q)(r)(s)	500	1993	3	12	100 1/2	Warburg Securities	11.898
Oest. Kontrollbank	100	1992	1 1/2	7.4	100	Goldman Sachs Int.	*
Col.Mort.Secs.No.1(t)	200	1992/98	1 1/2	7.4	100	Goldman Sachs Int.	*
ECUs							
Nat. Nederlanden US	100	1994	5	9	101 1/2	Bankers Trust Int.	8.555
Volvo Group Finance	75	1991	2	9 1/4	101.45	Sunlomo Fin. Int.	8.432
Fed. Business Dev.Bank	100	1996	7	9	101.80	Bqs Paribas Cap.Mkts	8.543
ECSC(u)	41	1997	7 1/2	8	98 1/2	UBS Phillips & Drew	8.832
SBC	100	1996	7	9	98 1/2	SBC	8.614
FRENCH FRANCS							
Bercybank Pte	500	1998	7	8	101 1/2	BNP Capital Markets	8.705
LIRE							
Unilever NV	150bn	1994	5	12 1/4	101 1/2	San Paolo Bank	12.985
GUILDERS							
Bk Foreign Ex.AUSSR	250	1989	7	8	101 1/2	ABN	7.715
DANISH KRONER							
Commerzbank O'pess Fin.	300	1993	4	0	70 1/2	Privatbaan	9.036
PESETAS							
EB	10bn	1994	5	12.20	100	B. Santander Negocios	12.200
YEN							
Dai Denke-Bank(e)	50n	1993	4	7	101 1/2	Nippon Credit Int.	6.825
ISJ Finance Co.(g)	200n	2004	15	8 1/4	102 1/2	ISJ Int.	7.357
World Bank(e)	100n	1994	5	5 1/4	100 1/2	Horinich Int.	5.163
Alliant(h)	50n	1989	10	5.45	100	Societion Brothrs	5.450
Sanoco di Napoli(i)	50n	1989	10	8	101 1/2	Dalwa Europe	7.589
National Home Loan(j)	50n	1994	4	5 1/2	101 1/2	Yasuda Trust Europe	4.905
Sparokassan SDS(k)	50n	1994	5	7.8	101 1/2	ISJ Int.	7.339

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April, 1989

NEW ISSUE

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INTERNATIONAL CAPITAL MARKETS

UK GILTS

Market split over future of rates

THE GILT-EDGED securities market is evenly divided over the future course of interest rates, believing they could either stay at 14 per cent or rise to 15 per cent. It is certain, however, that enough, perhaps too much, has been done to cool the domestic economy.

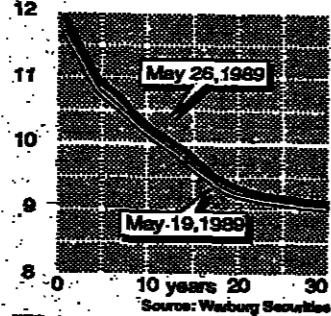
An impromptu survey of 10 participants, consisting of market makers and economists, discloses a clear preference for cash, with the long end of the market coming a distant second. The strategy recommended is decidedly cautious and summed up in the words of Mr Peter Clark, at Kleinwort Benson, who said gilts "remain a market for one night stands, not a holding relationship."

A minority believes that value at the long end will continue to be underpinned by the Bank of England. Its efforts to defend sterling, which has required intervention in foreign exchange markets, will have to be scaled and that means a step-up in official purchases at the long end.

It was well telegraphed to the market that the Treasury and the Bank thought 13 per cent interest rates were working in the way they were intended. The Treasury agreed and economic indicators released last week clearly supported that view. The volume of retail sales was down 1.4 per cent in April and since last summer it has barely grown. First-quarter gross domestic product figures,

UK gilts yields

Revised at par (%)



which showed a (largely oil induced) fall compared with the fourth quarter of 1988, lent support to the view that new construction orders in March showed a 9 per cent fall year-on-year.

In an attempt to make a silk purse out of a sow's ear, the official line last week was that the move to 14 per cent has been particularly well targeted. The Treasury and the Bank maintain that the new level of base rates will support the exchange rate but will not feed through to higher mortgage interest rates and hence hit the consumer.

The only house of the 10 surveyed to retain its belief in the soft landing is Warburg Securities. It believes the prospect remains one where growth slows. But the consumer is not destroyed and the pound will

not rise high enough to offer the risk of a hard landing.

The market is, however, generally disinclined to believe the authorities when they say the new level of base rates will not affect domestic activity. Goldman Sachs believes the UK is in for "a long dose of stagflation." The outlook is for persistently high inflation, with growth of around 1 per cent for a long period but with some considerable improvement in the balance of payments.

The view of most in the market is that if interest rates are sustained at 14 per cent for much more than a month, then building societies will be forced to move. A rise to 15 per cent, which 5 of the 10 surveyed think will happen within the next three months, will certainly tip the hand of the societies.

To these participants, a move to 15 per cent will be occasioned by sterling, which remains a large problem for the authorities. The Government appears divided among itself and is losing ground in opinion polls, both of which are unsettling to international investors. This is happening at a time when co-operation among the Group of Seven leading industrialised countries also appears at a low point and is fuelling interest in the dollar.

The next few weeks have therefore assumed the utmost importance to the market. At the time of writing, it seemed

as certain as things can be that the Japanese authorities were going to raise their discount rate 0.75 percentage points to 3.25 per cent - this being a compromise between the needs of the bond market and the equity market. The bond market would have pushed for another half-point rise if the Bank of Japan had moved only by a half, and the equity market, which would have been unsettled by the latter event, was seen to be able to cope with three-quarters of a point.

The focus later this week will switch to Frankfurt, where the Bundesbank council meets on Thursday. Failing another revolt by regional bank governors, it is unlikely that the Bundesbank will raise its discount and Lombard rates. The line from officials in Frankfurt is that rates are moved only in response to domestic conditions and that no new data has emerged to make a rise necessary. Moreover, the rise in the price level currently being reported reflects the past year's inflation, and appropriate action has been taken.

Where the combination of the Japanese rise in rates and the German reluctance to do the same leaves the dollar and sterling is anyone's guess. It seems unlikely to undermine the dollar but sterling could find support on the crosses in the absence of Bundesbank action on rates.

Simon Holberton

US MONEY AND CREDIT

Investors cling to careering dollar

THE CREDIT markets have become quite single-minded. For the past three weeks, lenders and bond investors have ignored signals about the state of the US economy. They have simply hung on for dear life to a careering dollar exchange rate.

Last week brought more of this. News of strong personal income and spending in April, robust durable goods orders and an ambiguous first-quarter figure for gross national product flashed by the markets almost without registering. The sharp 1.1 per cent rise in personal spending on Friday did set bond prices back but when the dollar continued upwards.

By the end of last week, the Treasury long bond was up by a full point, with its yield falling to 8.61 per cent. With this drop in yield, the long bond has decisively broken out of the range of 8.75 per cent to 9.50 per cent, which has been the price of 30-year money for a year. Merrill Lynch, among others, is badgering small investors to take these yields with the promise and threat they will fall further.

Yesterday, neither the foreign exchange nor the bond market traded in New York

because of the Memorial Day holiday. Overseas, the dollar was very strong and it is hard to see what is going to cool the speculative fever behind the rush into US financial investments.

On Friday, dollar bulls effortlessly frustrated two rounds of dollar sales by central banks. Higher interest rates abroad did nothing to stem the appeal of dollar investments. Base lending rates rose to 14 per cent in the UK and there was a piece of interest rate tinkering by the Swiss central bank which had the effect of raising Switzerland's Lombard rate.

The markets are also ready for rate increases in Japan and West Germany. For weeks there has been talk of a rise in the Japanese discount rate; the current guess is for a three-quarter point rise as early as this week. As for West Germany, which has pushed up interest rates twice already this year, the market seems to be thinking of some kind of Swiss-style move.

For the bond market, the dollar's rise brings not only the usual advantages of falling import prices and increased foreign interest. The sudden upturn in the exchange rate after three years of stagnation

or decline may have some crude but salutary economic effects.

There are parts of manufacturing industry - most notably steel, chemicals and paper - which have enjoyed de facto import protection through dollar devaluation and are running their machines at full capacity. The move in the dollar will now make it hard for them to raise prices with the freedom they have enjoyed for two years. And that will help limit inflationary pressure further down the production process.

Salomon Brothers gives this example from the paper industry. US paper pulp sells for \$840 a ton, up a handsome 14 per cent over the past year. But the 17 per cent rise in the dollar against the D-Mark has handed Scandinavian producers a \$75 a ton price advantage and the US producers will have to give up something, whether price, profits or market share.

This month's equity market, which has been oddly choosy for such a strong performer, wants nothing to do with last season's stars such as Bethlehem Steel, Union Carbide and International Paper.

Instead, a period of lower interest rates could stimulate depressed areas of the economy where growth is unlikely to be inflationary. The fall in interest rates, for example, might help residential construction in some markets of the north-east and Texas, where inflationary expectations are, to say the least, low.

What is particularly striking about the bond market rally is that fixed-income markets seem no longer bothered by the imbalance in US trade. After all, it was the decline in the

dollar exchange rate which was going to help the US export its way to repatriating surplus dollars overseas.

Admittedly, the merchandise trade deficit for March was \$8.9bn and a lot of people seem ready to say that the April figure, which will be published halfway through June, will show another decline. It is possible, too, that the rise in the dollar will temporarily flatter the trade statistics through a J-curve effect, reducing import prices as expressed in dollars.

But the equity market, for one, is far from sure that US manufacturers can adjust to an appreciating currency with the skill of Japanese industry. And it may well be that the bond market has decided that the dollar's rise will "hollow out" more of US industry with the attendant disinflationary effects of factory closures and job losses. It is not impossible that the dollar's rise actually signals the recession.

It is thoughts of this sort that have had the credit markets bubbling over with anticipation of a cut in Federal Reserve interest rates. With one-year and two-year Treasury notes yielding almost a percentage point less than overnight Federal funds, there was much speculation last week that the Fed would ease.

But though the Fed sold dollars heavily in the foreign exchanges, it drained reserves from the banking system all week to keep Fed funds at the 9 1/2 per cent level they reached in February.

Although the bond market seems to think inflation is beaten, the Fed evidently does not.

James Buchan

FT/AIBD INTERNATIONAL BOND SERVICE

Table listing international bond yields and prices for various countries including US, UK, Germany, France, Japan, and others. Columns include country, bond type, yield, and price.

US MONEY MARKET RATES (%)

Table showing US money market rates for various instruments like Fed Funds, Treasury bills, and commercial paper.

US BOND PRICES AND YIELDS (%)

Table showing US bond prices and yields for Treasury and commercial bonds.

NRI TOKYO BOND INDEX

Table showing the NRI Tokyo Bond Index performance for various categories like Government Bonds, Municipal Bonds, etc.

Chase boosts credit cards

By Janet Bush in New York

CHASE Manhattan added significantly to its credit card business by purchasing a \$1.1bn portfolio of Visa and Mastercard accounts from Independence One Bank of South Dakota, the largest deal of its kind.

The purchase of the Independence One portfolio by the Delaware subsidiary of Chase increases the bank's credit card base to more than 7m

Advertisement for EBRO (Compañía de Azúcares y Alcoholes, S.A.) featuring the company logo, name, and contact information for S.G. Warburg Securities, A.B. Asesores Bursátiles, S.A., and Prudential-Bache Capital Funding. It mentions placing 510,000 shares.

STRAIGHT BOND: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. Coupon-bearing coupon.

CONVERTIBLE BONDS: US Dollars unless indicated. Premium - percentage premium of the current effective price of buying shares via the bond over the current share price. Closing prices on MAY 27. WARRANTS: Equity warrants, premium - exercise premium over current share price. Bond warrants or put - exercise yield at current warrant price.

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INTERNATIONAL CAPITAL MARKETS AND COMPANIES

Liquidators appointed at listed Australian broker

By Chris Sherwell in Sydney

THE TROUBLES of Australia's broking industry were exposed yesterday when provisional liquidators were appointed at Jackson's, the listed Sydney firm.

Shares in the firm, one of two listed brokers, were suspended, and its futures operation stopped business. MBI, the Malaysian finance house which is a key shareholder with a stake of about 15 per cent, said it would make the necessary provisions.

Jackson's demise follows a number of recent setbacks. Earlier this month it said it would cut overheads by closing its offices in Melbourne and Perth. That retrenchment followed the sacking of about 20 staff at the end of March, and earlier redundancies last year.

The firm reported a A\$8.8m (US\$5.19m) loss for the six months to December, and a loss of more than A\$7m in the year to June 1988. When it listed at the height of the boom in July 1987, it was the first of Australia's brokers to go public. McIntosh Securities has since listed as well.

It is widely known that most Australian brokers have suffered financially from the low turnovers and competitive commission rates which have prevailed since the October 1987 crash.

Recent results from banking parents have confirmed the trend. So has more direct evidence, such as last month's decision to cease trading by Randall Cran & Green, the small Melbourne broker, and a general stream of redundancies.

Some broking firms, to strengthen their positions, have sold significant stakes to outsiders. Bain & Co found Deutsche Bank of West Germany as a partner, and McNab Clarke was bought by First Boston of the US. The largest independent broker remaining is J.B. Wera.

Some of the banks already implanted in the market. Since the Government selected the first primary dealers in December 1985, only one firm has dropped out of the market, but several others have scaled back their level of activity.

"It is clear that once you go above a certain number of dealers, it becomes very difficult to make a profit, and we had already reached that number," said the head of bond dealing at one French bank yesterday, adding that he feared Nomura might follow a policy of aggressively seeking market share.

The French Finance Ministry will be carrying out a review of the existing primary dealers

early next year, and it is thought possible that at this stage some might be demoted or replaced by the reporting dealers.

All authorised dealers are under the obligation to make permanent markets across the range of Treasury bonds and bills, but full primary dealers receive in return the right to make non-competitive bids at the regular monthly bond auctions. Reporting dealers merely gain access to the two inter-dealer brokers in Paris.

Warburg and Nomura are not the first foreign groups to be admitted to the circle of French Government bond dealers. J.P. Morgan was one of the original primary dealers

Continental to buy stake in Swedish tyre maker

By Andrew Fisher, in Frankfurt

CONTINENTAL, the West German tyre company, is planning a further expansion in its international activities through the purchase of a majority stake in Nivis Tyre of Sweden, a move which will roughly double its share of the Scandinavian market.

Nivis, part of the KF Industri group, an industrial conglomerate which is controlled by the Swedish trade union movement, last year had a turnover of SKr1.38bn (\$198m). Like the German company, it has roughly 10 per cent of the Scandinavian market and numbers Swedish producers Volvo and Saab among its customers as well as exporting tyres to other European countries.

The German company declined to say what price it intended to pay for Nivis, with which it has had a technical agreement since 1957. This dates from the time when Unroyal, the European subsidiary which was bought by Continental in 1979, was moving into radial tyres.

By purchasing General Tire of the US for \$643m in late 1987, Continental moved up from seventh to fourth place in the world tyre manufacturing league.

The inclusion of earnings from General Tire for the first time was mainly responsible for last year's 40 per cent jump in Continental's earnings to DM190m (\$106m).

As well as producing tyres under the Glisaved and Viking brands in Sweden and Norway respectively, Nivis, which employs 1,700 people, also has a chain of dealerships in Norway. The German company intends to keep the individual tyre brands, adding them to its existing Continental, Unroyal and Semperit brands in Europe.

Continental said it hoped to reach a final agreement on the purchase of Nivis this summer. The deal will mark a further step in the concentration of the world's tyre business into fewer companies, with Continental keen that Nivis does not fall into the hands of a rival producer.

Unrest in China scuppers Hopewell's rights issue

By John Elliott in Hong Kong

THE UNREST in China led to the abandonment yesterday of one of Hong Kong's biggest fundraising exercises when underwriters withdrew from a HK\$3.95bn (US\$501m) one-for-one rights issue launched seven weeks ago by Hopewell Holdings, a prominent property and construction group.

This was a blow for Mr Gordon Wu, a flamboyant entrepreneur who controls the company and has built up extensive construction interests in southern China. Analysts regarded the decision as inevitable because of the erratic state of Hong Kong's stock market.

Yesterday the local Hang Seng index recovered by 79.34 points to close at 2,945.01, after losing 379.96 points in volatile trading last week. It is still vulnerable to the political uncertainty in China.

Hopewell's shares were suspended on the Hong Kong exchange yesterday. They were last traded at HK\$2.47, compared with an offer price on the issue of HK\$2.60.

Mr Wu planned to use most of the funds to finance two projects - a 91-storey hotel in Hong Kong's Wanchai district and a six-lane highway linking Hong Kong with Guangzhou, the capital of China's Guangdong province and the special economic zone of Zhuhai, adjacent to the Portuguese enclave of Macao.

Hopewell said yesterday it would seek alternative methods of financing the projects, both of which are already

under way. Hopewell has had problems with Guangdong authorities on the construction of the highway and is believed to have been given direct backing from Peking.

A group of underwriters decided yesterday to terminate their underwriting agreement on the issue because, they said, there had been significant changes in market conditions since April 12 when they signed up. Led by James Capel, Far East and Wardley Corporate Finance, they were involved in just over HK\$1bn.

Mr Li Ka-shing's Cheung Kong Holdings was underwriting 13 per cent of the 1,455m new shares on offer and Mr Wu, along with his family and a few directors, was taking up another 60 per cent.

NISSAN, the Japanese car maker which has staged a strong recovery after a collapse in profits three years ago, yesterday posted a 121 per cent increase in consolidated annual pre-tax profits to Y200.5bn (\$1.4bn).

Strong sales at home of both cars and trucks as well as cost-cutting, plus a great improvement in the profitability of overseas manufacturing operations contributed to the overall gain.

Sales in the year to the end of March rose 18.4 per cent to Y4,812bn. Nissan said this was largely due to success in the home market where it raised market share in automobiles to nearly 25 per cent. It forecast a further 1 per cent point increase in the current year.

Operating profits almost doubled to Y171.3bn due to cost-cutting at home and abroad and the impact of increasing production at recently established overseas plants. Nissan said that profits in the US and Mexico rose steadily.

Losses at the British plant fell and Nissan said the factory may make a profit this year.

The increase in the contribution from overseas manufacturing operations is highlighted by the fact that in 1988 consolidated operating profits were at Y47.6bn, little higher than parent company operating profits of Y43.6bn. For the year just ended, consolidated operating profits of Y171bn compared with Y92bn for the parent company. Profits from overseas were expected to continue to grow in the current year.

On a consolidated basis, net income was Y114.6bn, up 77.7 per cent, giving earnings of Y46.27 per share. The parent company registered a 4.7 per cent increase in sales of Y3,580bn, and a 12.9 per cent increase in pre-tax profits to Y154.8bn. Net income was Y83.6bn, or 65 per cent up. The dividend was unchanged at Y14.

For the current year, Nissan forecasts further increases in parent company sales and pre-tax profits to Y3,800bn and Y170bn.

Nissan continues strong recovery

By Stefan Wagstyl in Tokyo

France increases bond dealers

By George Graham in Paris

THE FRENCH Government has named three more reporting dealers for its Treasury bond market, opening the way for the first time to Japanese and British securities houses.

Bacot-Allain, the French stockbroking subsidiary of the UK's S.G. Warburg, Nomura, the largest Japanese securities group, and Compagnie Parisienne de Récompte, a French discount house, have all been named "correspondents en valeurs du Trésor," joining two other banks in the same position and 12 full primary dealers, or "spécialistes en valeurs du Trésor."

The enlargement of the circle of Treasury bond dealers has prompted grumbles from

some of the banks already implanted in the market. Since the Government selected the first primary dealers in December 1985, only one firm has dropped out of the market, but several others have scaled back their level of activity.

"It is clear that once you go above a certain number of dealers, it becomes very difficult to make a profit, and we had already reached that number," said the head of bond dealing at one French bank yesterday, adding that he feared Nomura might follow a policy of aggressively seeking market share.

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Gencor plans to raise R1.5bn

By Jim Jones in Johannesburg

GENCOR, South Africa's second largest mining house, is to raise R1.5bn (US\$555m) in new equity capital in anticipation of several new mining and energy projects. The 20-for-100 rights issue will be the largest seen by the Johannesburg Stock Exchange and analysts believe it could be followed by other issues by Gencor's own subsidiaries and affiliates.

In April Gencor acquired Mobil's refinery and petrol station chain for R600m when the US oil company divested. Mr Derek Keys, Gencor's chairman, says the Mobil purchase has already been financed and that the present rights issue is in anticipation of several new developments.

Gencor has been particularly active in the energy field and has the right to buy a 30 per cent interest in the state-owned Mossgas off-shore gas venture in 1991. The group is also planning a synthetic diesel plant based on torbanite oil shale to start during the next couple of years at an expected cost of about R1bn.

Several of the group's subsidiaries are planning new developments and Gencor itself will need to follow their rights issues.

Samancor is planning to build a stainless steel plant as a joint venture with Highveld Steel & Vanadium; Impala Platinum is developing its new Kamee mine; and the Oryx gold

mine in the Orange Free State is expected to need additional development capital soon.

The JSE has not been favoured as a source of capital since the crash of 1987, even though industrial share prices have recovered and are at record levels. Most large industrial companies have strong balance sheets and cash flows and prefer to finance new developments with internally generated cash, although financial institutions are flush with cash and eager to invest in new issues by blue-chip firms.

Samlam, the insurance company, is expected to pay about R450m to follow its rights in the Gencor issue.

Irish futures exchange launched

By Kieran Cooke in Dublin

MR Charles Haughey, the Irish Prime Minister, yesterday launched the Irish Futures and Options Exchange (Ifox), the first exchange to be created in Ireland since the formation of the Dublin Stock Exchange in 1789.

A total of 24 financial institutions have subscribed IE1.6m (\$1.9m) to set up Ifox, which will initially trade financial futures and options linked to Irish pound gilts, interest rates and Irish pound/dollar

exchange rates. Its promoters say that Ifox will eventually list futures contracts linked to Irish equities and options contracts on gilts, currencies, equities and interest rates.

Ifox is a computer-based automated market with members trading via personal computers in their own offices, with links to a central exchange computer.

Mr Diarmuid Bradley, Ifox managing director, said that

the exchange would enhance significantly investment opportunities for Irish financial institutions.

Among Ifox members are Ireland's two main commercial banks, Allied Irish Bank and Bank of Ireland, plus Citibank, Banque Nationale de Paris and Algemeene Bank Nederland. Most of Dublin's leading stockbroking firms are also Ifox members.

Initially Ifox will trade only between 10.30am and 3.30pm.

Japanese bearing makers surge ahead

By Ian Rodger in Tokyo

JAPAN'S three top bearing manufacturers have reported strong profit growth in the year to March 31 1989, thanks to booming demand from automotive, machine tool and other machinery makers. However, the three have widely differing expectations for the current year.

● Pre-tax profits of NTN Toyo

Bearing, the second-largest group, rose 48 per cent to Y12.2bn (\$86.2m) on sales up 10 per cent to Y225.7bn. The company expects its profits to decline to Y8bn this year.

● Nippon Seiko, the largest bearing maker, said its pre-tax profits had jumped 37 per cent to Y15.7bn on sales of Y275.5bn, up only 3 per cent.

The company is looking forward to a further 21 per cent rise in its pre-tax profit in the current year to Y19bn.

● Koyo Seiko said pre-tax profits reached Y8.5bn, up 37 per cent from the previous year. Sales rose 12 per cent to Y205bn. The company expects pre-tax profits to rise 7 per cent this year to Y9.2bn.

This announcement appears as a matter of record only.



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Banque Generale du Luxembourg S.A.
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Banque Bruxelles Lambert S.A.
Banque Paribas Capital Markets Limited
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UBS Phillips & Drew Securities Limited

Nomura International
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S.G. Warburg Securities

Westdeutsche Landesbank
Girozentrale

May, 1989

Hawtall... loss despite shortfall in volume

FINANCIAL TIMES SURVEY



Cairo's readmission to the Arab League after 10 years has been a diplomatic triumph for President

Hosni Mubarak. But, as Andrew Gowers writes, the President will be keeping an eye on its impact at home, where he has been walking a political and economic tightrope

Back into the Arab fold

WITH A minimum of fuss and a modicum of predictability, President Mohammed Hosni Mubarak of Egypt made history last week by representing his country at a summit meeting of Arab leaders for the first time. His presence in the Moroccan port of Casablanca symbolised the formal conclusion of a chapter which had all but ended several years ago: the attempt by other Arab states to ostracise Egypt over its peace treaty with Israel.

But, Cairo's readmission to the Arab League, an organisation it once dominated and then derided, was more than a formality. In nothing up his latest diplomatic success, Mr Mubarak will also have had an eye to its impact at home, where he has been performing a political and economic balancing act that becomes more delicate by the month.

President Mubarak has steered Egypt back to a position of real weight in a variety of fora, from the Non-Aligned Movement to the Organisation of African Unity

act that becomes more delicate by the month. Egypt's political establishment, while freer to speak and write than at any time in recent memory, is confused and fragmented; its populace seems more than usually alienated from the system; more important, its financial circumstances have dramatically worsened in the past year, and the Government's attempts at economic reform still seem faltering at best.

This combination of political drift and economic deterioration gives Egyptian political pundits a sense of impending crisis that was not apparent even a year ago; and even in some cases a fear that conditions could become politically combustible, with economic hardship providing a potential spark.

In the circumstances, it is scarcely surprising that the Government attaches such singular importance to securing diplomatic gains — in the hope that an enhanced standing abroad will help to offset its difficulties at home. "Given the intensity of our domestic problems, the question is whether external success can help us get through our economic situation," says Mr Tahsin Basrah, a senior diplomat and sharp observer of the local scene.

This is not in any way to belittle Mr Mubarak's diplomatic achievements in the eight years since he took the helm after the assassination of President Anwar Sadat. By dint of persistence and a great deal of tact, the President and his Foreign Minister of the last four years, Dr Esmat Abdel-Meguid, have steered Egypt back to a position of real weight in a variety of fora, from the Organisation of African Unity (Egypt becomes chairman in July) to the Non-Aligned Movement.

Arafat, the Palestine Liberation Organisation leader. Mr Mubarak has normalised relations with the Soviet Union, maintained the 10-year-old peace (albeit a cold one) with Israel, and nurtured Egypt's close ties with the US. Once again, it is being said with confidence in Cairo that Egypt is uniquely placed to play a central role in the elusive Middle East peace process, as the only Arab country on speaking terms with other Arab states and with Israel. The weight it is being accorded was graphically underlined earlier this year, when Mr Eduard Shevardnadze, the Soviet Foreign Minister, met both his Egyptian counterpart, Mr Moshé Aramé, and Mr Arafat during a visit to Cairo.

Set all this against Egypt's economic troubles, however, and you begin to see the limits to what can be achieved through diplomacy. What the world saw last week in Casablanca was a weakened Egypt joining a much weakened Arab League in the light of the Arab world's fatigue after the Gulf war and Arab regimes' fears over the Palestinian uprising in the Israeli-occupied territories, the two parties need each other, perhaps as never before.

Moreover, Egypt's straitened economic circumstances — in particular its dependence on US and other financial assistance and its crippling foreign debt — are bound to constrain its ability to carve out a strong or independent foreign policy. Its characteristic diplomatic posture these days involves juggling support to the initiatives of others, plugging away at the theme of moderation, seeking to lure the US into a high-profile effort at ending the East-West arms race, or to prod the PLO into further clarifying its position.

At the same time, President Mubarak constantly reminds his Western interlocutors that the maintenance of moderation comes with a price: continuing financial assistance to ensure political stability. Dr Mohammed Abdellah, chairman of the Foreign Affairs Committee of the People's Assembly and a confidant of Mr Mubarak, describes this process as "using the international weight of Egypt to serve the country's economic purpose... We say to the international community: do you want peace in this area? If the answer is yes, you have to help us assume this role."

Every time he presents his political "cost-benefit analysis" to Western governments these days, Mr Mubarak finds himself confronted with sympathetic but increasingly frustrated complaints about his country's performance in servicing its foreign debt or about the slow pace of economic reform.

Of necessity, then, the President's main preoccupation remains the economy. And here the problems have been crowding in on him thick and fast in the past year. They include:

■ Rapidly increasing unemployment. This is impossible to assess with any degree of precision, given the large size of the black economy. But senior Government officials reckon that between 20 per cent and 22 per cent of the workforce may now be jobless. The figure is bound to rise further since Egypt's spiralling population brings an estimated 450,000 new job-seekers on to the market every year. Already, a queue of several million graduates has built up for supposedly guaranteed jobs in the public sector.

■ A financial squeeze which became increasingly severe last year and which is now close to crisis-point. Once again, Egypt has been building up heavy arrears on its \$43bn foreign debt, and these are likely to grow further in the absence of another Paris Club rescheduling. Its access to new inter-governmental, let alone commercial, credit is almost completely blocked. Creditor countries are attaching conditions even to soft loans for the purchase of vital commodities like wheat; foreign exchange reserves are as low as they have ever been.

The balance of payments is stilling again, as a result of increased interest rates there, a promise of remittances from Egyptian workers abroad and patchy oil revenues. The current account deficit was cut to only \$54m in the last fiscal year, thanks mainly to a drastic reining in of imports. But that did not include overdue debt payments, which would have inflated the deficit considerably. And Dr Youssi Moustapha, the Economy Minister, believes the deficit will show renewed slippage in the current year, ending June 30, perhaps reaching \$700m.

Moreover, capital flight is believed to be continuing, contributing to a further slide in the value of the Egyptian pound and starving the country of investment. The collapse of a number of so-called Islamic investment houses in Egypt last year — in which tens of thousands of ordinary Egyptians stand to lose their savings — is said to have shattered what confidence was left in the economy. Remittances from workers in the Gulf and else-

where, the country's main source of foreign exchange earnings, appear to have fallen sharply as a result. Egypt is, of course, no stranger to debt service problems, but there is reason to believe that the issue will be brought to a head later this year over the question of the \$4.6bn military debt to the US. In the absence of a second Paris Club rescheduling, Cairo has to find increasing amounts of extra money every month from July to resume payments on this debt, service of which will cost more than \$500m in fiscal 1989-90. If it does not, it risks triggering a cut-off of US financial assistance.

Cairo now recognises it will have to strike another deal with the International Monetary Fund on terms almost certainly stiffer than the end of this year. The breathing space the Government has until it does so is bound to be constricted, but ministers reckon that they can hold out at least until October. Although the situation is only now becoming critical, the rot in fact set in as early as 1987 with the collapse of a previous Economic Stabilisation Programme agreed with the IMF. Within only a few months of the signing of that accord, and of a May 1987 Paris Club agreement to reschedule \$5.5bn of its debt, Egypt started backsliding on its reform commitments. Partly as a result, the expected wave of new credit from the international community did not pour in and by last year relations between the two sides had reached a fresh nadir, with President Mubarak indulging in petulant attacks on the Fund as a "quack doctor."

The rhetoric has now died away, and serious bargaining has begun again between Egypt and Fund representatives over a timetable for economic reform. President Mubarak has nudged the process along with a number of policy adjustments — a jump in subsidised energy prices here, a modest rise in interest rates there, a promise of new measures to promote investment in the near future.

But as the negotiations enter a decisive phase, there is still a sense that Egypt is running to stand still. The IMF, now at least twice bitten and thrice shy in its dealings with Egypt, is determined to avoid a re-run of 1987; the Egyptian authorities are equally determined to prevent something worse, namely the sort of violent protests which they fear could be unleashed by any abrupt move on the economy.

Meanwhile, Western officials continue to puzzle over the more fundamental question of how to draw the Government into the sort of sustained, rather than piecemeal, process of reform without which the country will simply muddle along from one crisis to another for the foreseeable future.

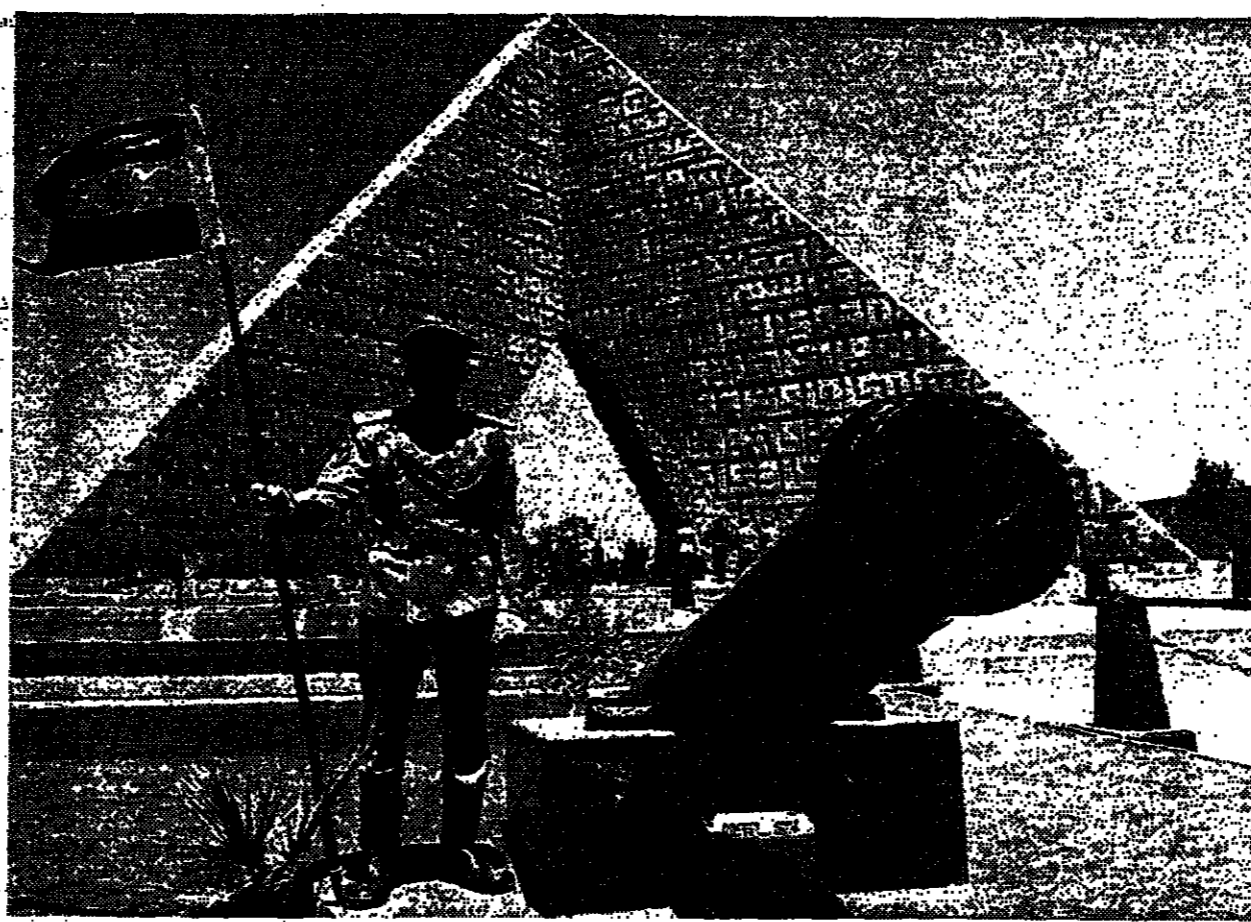
Egyptian officials understand why the IMF is maintaining a tough line. After all, the terms of the collapsed 1987 standby credit were among the most lenient ever agreed with a debtor country. "We have a saying in Arabic: he who gets scalded by the soup is likely to blow on the yoghurt," said one Government adviser. "The trouble is that the IMF could easily get scalded again because what we are offering is another soup."

But it goes deeper than that. In its report on the failure of the 1987 programme, the Fund warned that Egypt would continue to face severe payments problems well into the 1990s — even if it agreed to the pace of reform being suggested. This is not very encouraging for those who believe the international community can and should do more than keep a finger in the dyke.

Nevertheless, the omens for an eventual deal this year are not bad. In recent weeks, the outlines of a possible compromise have begun to emerge. Senior Egyptian officials and their Western counterparts are focusing their attention on possible measures to stimulate the supply side of the economy, in order to compensate for the shock which an accord might be expected to deal to the demand side. The US, as Egypt's main paymaster, now appears to accept that the West put insufficient effort into this aspect of reform in 1987.

Discussions are still at the preliminary stage, but the outcome may be an agreement to speed up disbursement of Western aid in return for specific measures to deregulate sectors of industry or agriculture, and to permit the proper functioning of a capital market: not a comprehensive reform, but a start in dealing with the welter of official controls stifling the economy.

It is widely accepted in government circles that the key to revitalising economic activity lies in attracting back some of the Egyptian money — conservatively estimated at \$6bn — that has flowed abroad, or has not flowed home, over the decades since the late President Gamal Abdel Nasser nationalised the country's industry and banks. It is also acknowledged that doing so will require the Govern-



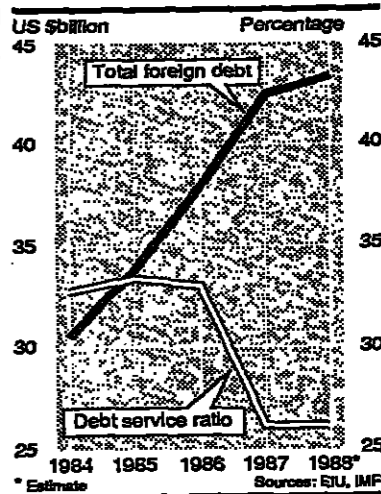
Sphinx Monument: tribute to the former ruler whose treaty with Israel led to Egypt's ostracism in the Arab world

EGYPT

KEY FACTS

Area: 997,738 sq km
President: Mohammed Hosni Mubarak
Population: 50.74m
Life expectancy at birth (1986): 61 years
Birth rate per 1,000 population: 1985: 43%; 1986: 34%
Population per doctor: 1985: 2,300; 1986: 780
% of 11-18 year-olds in secondary education: 1985: 26%; 1986: 62%
GDP at market prices: £51,382m (1988)
Real growth in GDP: 2.7% (1988)
Average annual growth in GDP (1984-88): 3%
GDP per capita: \$1,240
Inflation: 25% (1988)
Average annual inflation (1980-87): 16.3%
Currency: Egyptian pound (£E)
Average annual exchange rates (1988): Official rate: \$ = £E0.7; Secondary rate: \$ = £E2.2129; £ = 3.9421
Current exchange rate: \$ = 2.5586; £ = 4.0440 (May 1989)
Merchandise exports: \$3,050m (1988)
of which crude petroleum 41.7% refined petroleum 15.7% cotton 14.4%
Average annual growth rate in export volume 1980-88: 7.4%
Merchandise imports: \$8,020m (1988)
Average annual growth rate in import volume 1980-88: 5.2%

Trade balance as % of GDP: -13.8% (1988)
Petroleum production: 850,000 b/d (Sept 1988)
Current account balance: -\$554m (FY87/88)
Current account balance as % of GDP: -3.4% (1988)



Reserves exc. gold: \$1,025m (1988)
Stock of debt: \$40,369
Debt service: \$1,927m
Debt service ratio: 12.7%
Total debt as % of GDP: 117.6%
All data 1987 unless stated otherwise

ment to take decisive steps to boost business confidence, involving some form of deregulation. The problem lies in translating this general awareness into a precise course of action — the more so since any effective remedies are likely to strike at the core of Egypt's highly centralised system of economic management. It all seems something of a tall order, raising a number of overtly political questions.

First, does President Mubarak have the requisite authority, determination and competent support to carry such a programme through? Second, how does he sell it to a population that is by turns deeply divided and apathetic without provoking riots or another type of challenge to the system? As might be expected, the answers to these questions are far from easy.

As far as authority is concerned, the normally timid Mr Mubarak has recently been asserting himself in unaccustomed fashion. In April, he summarily removed Field Marshal Abdel Halim Abu Ghazala, the powerful Defence Minister who was widely seen as his main rival, and placed him in the "non-job" of consultant to the President. The reasons for the move remain something of a mystery. One theory attributes it to Mr Mubarak's embarrassment over Mr Abu Ghazala's alleged role in an Egyptian plot to smuggle high-tech materials for missile construction from the US; another to a desire to curb military expenditure, a task for which Mr Abu Ghazala's successor, Mr Youssef Abu-Taleb, a former governor of Cairo with a reputation for efficiency, would be well suited.

Whatever the motive, the important fact is that the transfer was apparently accomplished without ructions in the armed forces — still the ultimate guarantors of the regime — and that it leaves Mr Mubarak in undisputed control of the Government.

Now can there be said to exist an organised alternative outside the regime? The opposition left in almost total disarray, and the religious right divided between the semi-legitimate Moslem Brotherhood and a proliferation of extra-parliamentary groups which are currently on the receiving end of a serious crackdown by Gen Zaki Badr, the tough-talking Interior Minister. Egyptian experts reckon that the Islamic trend, while still influential, has suffered a number of setbacks in recent months — not least the collapse of the investment houses that had been operating in the name of Islam.

It is a token of Mr Mubarak's confidence that he has shown no sign of retreating from his commitment to a form of pluralism. Egyptian intellectuals say that freedom of the press and of expression is now greater than at any time since the Free Officers' coup of 1952. While many of them regret that this is not accompanied by freedom to organise, or a genuine broadening of political participation from the lacklustre National Democratic Party, the regime's relative liberalism does provide an important safety valve for discontent.

What is still not clear, after eight years of his rule, is precisely what, if anything, Mr Mubarak aims to do with his power. The President is by nature a cautious consensus-builder. His Government is a broad church that contains a range of opinion from free-market enthusiasts to old-school corporatists. The two strains co-exist uneasily.

The educated public appears to realise that the present situation is not sustainable indefinitely, but people have no clear idea what should replace it, and they fear the unknown. They perceive the bureaucracy's shortcomings, but would fiercely resist any attempt to tamper with an institution which Egyptians still regard as a vital part of the social compact between them and their rulers. As Mr Mikhail Gorbachev has discovered, perestroika is by definition divisive.

The real danger, of course, is that economic hardship will eventually provoke violent disturbances among those who have no stake in the system. "In Egyptian cities, you have a very inflammable situation with a lumpen proletariat of young unemployed and new migrants from the countryside who are not incorporated into any sector of society," says Dr Saad Eddin Ibrahim, a political science professor at the American University of Cairo. "This is the social group that has been responsible for riots in Algeria, Morocco, Venezuela and Egypt 12 years ago. The state could contain such a challenge, but the destruction it could cause and the danger of frequently calling in the army would be very dangerous for the stability and credibility of the regime."

This is the fear that haunts even the most progressive-minded ministers, and reinforces the Government's in-built inertia. Although Egyptian society has proved resilient over the years, outsiders are chary of trying to second-guess the Government's calculations about its room for manoeuvre.

By exhortation and explanation, President Mubarak can at least claim to have propagated a general awareness among Egypt's political elite that a somewhat bolder approach is needed to address the short-term and much more serious medium-term challenges confronting the country: a population rising at the rate of 1m every seven months; deteriorating public services; and rapidly rising local consumption of energy which could mean it ceases to be a net oil exporter by the mid-1990s. It is not yet clear that he has the sense of purpose equal to the task.

Cairo recognises it will have to strike another deal with the IMF on terms almost certainly stiffer than it will find comfortable, probably by the end of this year

The Government finds itself confronted with increasingly frustrated complaints about the country's slow pace of economic reform

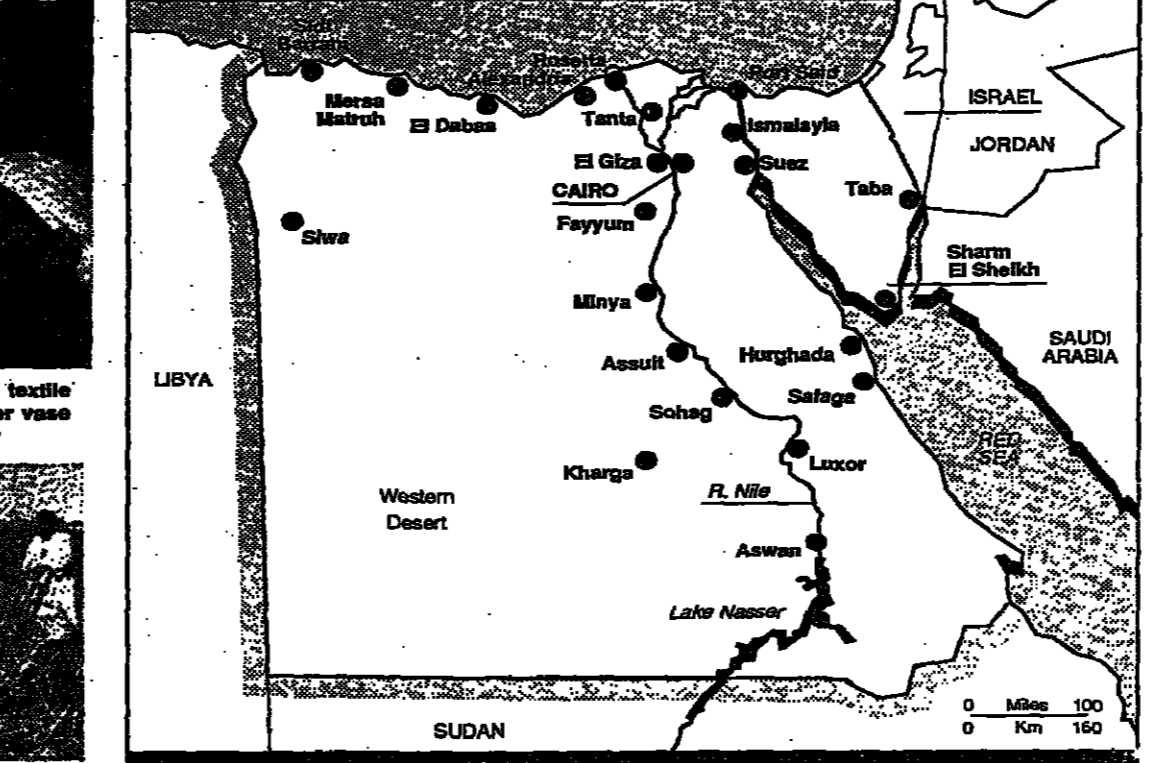
Egypt's political establishment, while freer than at any time in recent memory, is confused and fragmented; its populace seems more than usually alienated from the system

CONTENTS

- ENERGY Pressure on the Government to find new oilfields as the prospect looms of Egypt becoming a net importer has prompted a flurry of activity..... 2
- INDUSTRY The few bright spots are overshadowed by other sectors' problems with foreign exchange and a stagnant domestic economy..... 2
- AGRICULTURE The question confronting planners is whether self sufficiency will ever be possible in a country..... 2



- TOURISM The good news in an otherwise fairly bleak financial picture is that revenues from tourism continue to be buoyant..... 3
- MOTOR SECTOR GM's Egyptian truck-assembly operation and the Government have clinched an innovative foreign exchange deal..... 3



Faces of industry: worker at a Cairo textile plant (left); craftsman making alabaster vase (above); sugar cane plantation, Luxor

Cairo's Sphinx and Pyramids

EGYPT 2

ENERGY

A flurry of activity

IF THE number of agreements signed this year by foreign oil companies in Egypt is an indication, then oil and gas exploration is about to rebound strongly after being in the doldrums for several years.

Since January 1, about 35 agreements have been initiated, with more to follow in the next few months as the Egyptian Petroleum Corporation (EGPC) seeks to clear a backlog of applications, some of which date from 1986.

A number of factors have contributed to the latest flurry of activity, including the appointment of a new chairman at EGPC, the unveiling of a gas clause offering additional incentives to explore for hydrocarbons and growing pressure on the government to find new oilfields as reserves are depleted and the prospect of becoming a net importer moves nearer.

If consumption goes on increasing at the present rate, and there are no large new finds, Egypt will be forced to import oil by early next century. It is an unpalatable prospect for a debt-burdened country which even now has trouble finding foreign exchange for essential imports such as wheat.

The lowering "horizon" on Egypt's oil self-sufficiency is an important factor in the calculations being made by foreign oil companies seeking to take advantage of the new gas clause which for the first time formally clears the way for the exploitation of gas deposits.

Under the "take or pay" arrangement, companies will be compensated for gas utilised at a benchmark Mediterranean price for gas minus 15 per cent to cover infrastructure costs. The gas contracts specify that gas should be paid for either in cash or oil. As long as local oil production exceeds domestic demand, companies can be reasonably certain of getting paid. However, there are few illusions among foreign oil company representatives in Cairo about the likelihood of payment difficulties once Egypt becomes a net oil importer.

"Their ability to pay is the biggest question in everyone's minds," said a US oil company representative. "That and the absence until now of a gas clause is one of the things that have deterred people (from investing in the search for

Oil and gas exploration is about to rebound strongly after being in the doldrums for several years

gas). If the day comes when consumption of oil in Egypt stops exports, then everyone's in trouble. On most gas projects you're going to have to look at getting it back quicker than oil."

Shell has been the most adventurous investor in the development of gas deposits; it signed the first "model" gas contract for its Bed-3 field in the Western Desert. But there are signs that Shell, which is committed to investing some \$600m in exploration and development for both oil and gas over the next few years, has decided to pull in its horns for now. Mr Faruk Heggy, chairman of Shell Winning, Royal Dutch Shell's Egyptian subsidiary, said he was looking three or four years ahead when his company would be ready for new commitments.

"Let us carry on and see some dollars first," he said. Most oil company representatives discount the possibility of large oil finds like Amoco's discoveries in the Gulf of Suez in the past several decades. But they are confident there is more oil in the Western Desert, and possibly in the Sinai where Amoco has taken a lease on 19,000 sq km.

An Amoco executive said the company planned to drill two wells initially, and also to conduct seismic research. Esso drilled a couple of shallow wells in the Sinai in the 1940s, but there has been almost no activity since.

Oil company representatives say their latest negotiations with EGPC have been some of the toughest in their experience. They noted that Egypt was squeezing them harder than ever before on cost recovery terms and on share of profit oil. "It's a sign of the times. They are desperately short of cash," said an oil company representative.

So far, though, there has been no slackening of interest among foreign oil companies in new acreage. With the excep-

Tony Walker

Businesses face big debts and a lack of foreign exchange, writes Andrew Gowers

Industry struggles to stay afloat

EGYPTIAN businessmen have devised a joke to describe the travails of the country's private sector since the Free Officers' coup of 1952. Anyone, it says, who didn't go to jail under Nasser will never go to jail; anyone who didn't make money under Sadat will never make money; anyone who hasn't gone bankrupt under Mubarak will never go bankrupt.

Then there is the legendary bureaucracy. Despite frequent government promises to lighten the burden on private enterprise, red tape remains stifling.

But the direct origins of the current crisis are relatively recent. Three main factors are at work.

First, there is a shortage of foreign exchange which is especially acute for private businesses wanting to import raw materials or semi-finished goods for further processing. Foreign banks have largely frozen supplier and letter of credit facilities because of the impasse over Egypt's debt. At home, importers are once again having increasing difficulties with the country's cumbersome system of multiple exchange rates.

Given that the government commandeers oil, cotton and Suez Canal revenues at its artificial Central Bank rate of £20.70 to the dollar (partly in order to disguise the cost of distributing subsidised food), importers are left to battle for a share of what is called the "commercial bank pool" - supplied mainly from tourist revenues and expatriate Egyptian workers' remittances.

But this pool has been encountering increased difficulty in meeting the still heavy demand for hard currency, partly because Egyptian workers have reduced the flow of remittances since the collapse of Egypt's Islamic investment market last year.

Now is there any guaranteed source in the grey or black market. The unofficial value of the dollar has been showing increasing divergence from the commercial bank rate in recent months, demonstrating that some businessmen have been tempted back to illegal channels in order to obtain their foreign exchange.

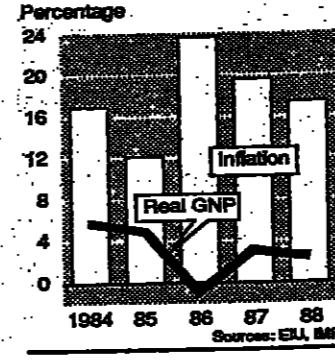
But they run the risk of being caught by a government determined to crack down on the unofficial currency market: a number of entrepreneurs are reported to have been arrested in recent swoops

on money changers. Small wonder that respectable company executives think twice before dabbling in the black market.

A second problem area is private sector hard currency debt - a burden that has become critical with the continuing slide in the value of the Egyptian pound.

In the early 1980s, when the dollar was quoted at £28.84, Egyptian companies went on a dollar-denominated borrowing spree, running up debts variously estimated to total between \$1bn and \$3bn. The snag is that the dollar is now worth nearly £23, so the com-

Economic indicators



Source: CIA, IMF

panies' debt burden, assessed in local currency, has more than tripled.

"Many companies have been hit by this, and some are really in serious trouble servicing the debt," Dr Gazzarine said.

Third, there are even problems of liquidity in local currency. The Government is tightening the money supply to combat inflation, and banks have become ultra-cautious about lending in Egyptian pounds. The purchasing power of ordinary Egyptians is being squeezed, and will probably be squeezed further if there is an agreement between Cairo and the International Monetary Fund.

Reclamation is one way of attaining food self-sufficiency, writes Tony Walker

The race is on to find new land

"FOR US land reclamation is a must. We don't have any other choice," declared Dr Adel el-Beltagi, the head of Egypt's land reclamation bureau. "It's a challenge which we have to face, in order to seek self-sufficiency in major agricultural commodities except wheat."

The question for Egypt's agricultural planners and aid donors, however, is whether self-sufficiency will ever be possible in a country whose rate of population increase is putting an ever-increasing burden on limited arable land.

To date, the relatively unsuccessful land reclamation efforts - much of the reclaimed land returns low yields - have not inspired great confidence in government claims that by early next century it will have largely bridged the food gap with the exception of wheat.

"The challenge is immense. Agricultural imports have now reached about \$4bn a year. Egypt is currently importing more than two-thirds of its wheat and vegetable oil, about one-half of its sugar and one-third of its feed-corn. Its population of 54m is increasing at a rate of about 1m every seven months; by 2000 it will have climbed to 75m at a present annual estimated increase of between 2.7 per cent and 3 per cent.

The yearly increase in agricultural output is hovering at around 2.5 per cent. Egypt desperately needs to increase substantially the rate of agricultural production, but this is not possible from existing

high-yielding and intensively farmed land in the Nile valley and Delta. The race is on to find new land. The Ministry of Agriculture and its bureau of land reclamation have recently identified 3.4m acres of virgin territory, out of 17m surveyed, that would be suitable for reclamation.

It has drawn up a master plan, under which these additional 3.4m acres - existing acreage totals a little less than 7m acres - will be ploughed. Some 2.8m acres would be suitable, according to the master plan, for reclamation using Nile waters. The remaining 600,000 acres would be irrigated from stocks of underground water in places like the Western Desert and the Sinai. The present target is to reclaim 130,000 acres annually. If this rate is maintained for the next decade, Egypt will have broadly matched in 10 years the 1.5m acres reclaimed since 1952, the year that brought Gamal Abdel Nasser to power.

Dr el-Beltagi is confident that significant progress can be made towards restoring balance to Egypt's food production, bearing in mind that in less than two decades the country has slipped from being a net agricultural exporter to an importer of more than 50 per cent of its total food requirements. He is scornful of various land reclamation studies, including one sponsored by the United States Agency for International Development (USAID) in the late 1970s, that found the cost of reclaiming land to be prohibitive. This, he said, had deterred foreign donors from supporting such schemes.

Egypt is now pressing ahead with two big land reclamation projects that will open up farming land on the Mediterranean coast to the east and west

Continued on Page 3

THE NILE BANK

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BALANCE SHEET AS AT DECEMBER 31st, 1988 (In L.E.)

	31/12/88	31/12/87
Total Assets & Liabilities.....	656,939,538	557,095,888
Capital.....	in US\$ 40,000,000	40,000,000
Total Loans.....	213,178,131	222,211,032
Investments.....	24,898,648	17,814,011
Net Profits.....	13,641,853	12,045,933

NB Dec 1987 US\$ = 187 P.T./June 1988 US\$ = 235 P.T.

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- The Nile Bank Companies, with a total capital of 150.7m E. Pounds, in which the bank holds an average 20% share are:
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 7. Nile Co. for Fodders and Chickens
 8. Nile Co. for Projects and Trade
 9. Nile Co. for Tourism
 10. Modern Arab Co. for Timber Industries (MATIN)
 11. Cairo Investment & Development Co.
 12. Mansoura Poultry Co.
 13. Cairo Radiology Centre
 14. Nile Co. for Chemical Industries and Modern Packaging
 15. Nile Co. for Investment & Development
 16. Nile Co. for Marketing

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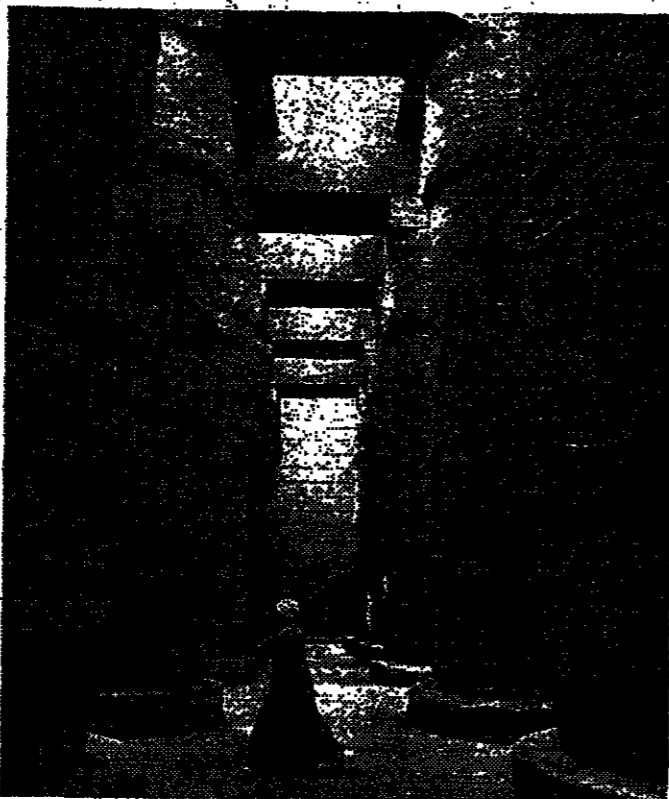
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EGYPT 3

Tony Walker meets a former banker reviving the tourism sector
Free market's spokesman



Karnak Temple, one of Egypt's most popular attractions

DR FOUAD Sultan hardly fits the image of a 'pilot' fighter. Yet the quietly spoken former investment banker has had more than his share of scrappy encounters in the four years since his appointment as Minister of Tourism and Civil Aviation.

He has used his position to take up the cudgels on behalf of a beleaguered private sector.

"This is part of the penalty I have to pay to continue my fight," he says ruefully of the frequent criticism he suffers at the hands of Egypt's broad left. "It's not an easy thing to change people's attitudes, but you have to continue to try."

In a country where old dogmas die hard, 59-year-old Dr Sultan stands out in a cabinet of cautious technocrats.

One prominent businessman said Dr Fouad was to be sacked or was to resign from the government; it would send a very, very negative signal to the business community. He really is our last hope.

Dr Sultan, the founder and former chairman of the Misr Bank Development Bank (MIDB), welcomes this sort of observation, but on the other hand he appears to sense that he carries the hopes of many Egyptian businessmen and not a few foreign embassies anxious to see an accelerated liberalisation of the economy.

He believes that in spite of his image of being a lone fighter within the government for economic rationalisation, "everyone else is becoming more oriented towards the privatisation issue."

He observes: "Whether we like it or not, there is no way we are going to get out of the economic crisis without introducing comprehensive economic reforms, not only of fiscal and monetary policy, but also of production and productivity. People are now much more convinced that the private sector can play an active role."

When he was appointed to the cabinet, he set out to prove that free market principles, when applied to the hitherto government-dominated tourism sector, would bring quick and beneficial results.

With more than a little luck and some bold initiatives he has been proved right. One of his first actions was to "open Egypt's skies" to charter

flights in the face of powerful opposition led by EgyptAir, the national carrier. This put Egypt within reach of the mass tourism market. In 1987 the number of visitors increased by 100 per cent compared with 1986, due in part to the new policies and also to a general recovery in Middle East tourism.

He also set about "divesting" the government-owned and loss-making Egyptian Hotels Company (EHC) of its 18 hotels to private, and in almost all cases, foreign management. Helped by the tourism boom, EHC turned an operating loss of £26.5m in 1985-86 into a modest profit in 1987-88.

Dr Sultan said that from his point of view, the most important development here was not the turnaround in EHC's balance sheet, but the fact that foreign companies leasing some of Egypt's grand, historic hotels, such as the Cataracts in Aswan, had agreed to invest a total of £260m on much-needed renovations.

Among EHC's 18 hotels, only the San Stefano on the waterfront at Alexandria has yet to be leased to private management, and this is not for want of trying by Dr Sultan.

His efforts in 1987 to sell the San Stefano to the al-Payed brothers drew strong and emotional protests from government and opposition figures, and forced the historic hotel's withdrawal from sale.

For Dr Sultan it was a somewhat chastening experience and one that raised, not for the

first or last time, the spectre of his early departure from the Cabinet. That he has stayed is a tribute to his tenacity and his sense of mission.

He admits today to having "lost partially" on the San Stefano, but he did manage to persuade the government to allow him to sell a half share in the hotel to investors. So far, there have been no takers.

Another of Dr Sultan's missions has been to liberalise the management of EgyptAir, a government-owned dinosaur which had built up an unenviable reputation for poor service and delays.

His initial efforts have been focused on introducing some new private sector blood on to the board of EgyptAir - it is not a "one-man show," he declares pointedly - and on encouraging the airline to embark on an aggressive programme of acquiring new aircraft.

The national carrier has committed itself to purchase and lease arrangements totalling about \$1bn financed, Dr Sultan says proudly, from its own resources and borrowings. There has been no assistance from the government or central bank. He sees EgyptAir as an important test of his privatisation theories.

"Liberalisation is not just a word," he says, "but it needs to have a very detailed action programme. In the case of EgyptAir this has meant, apart from changing the composition of the board, ensuring the airline becomes totally responsible for its own commitments."

He has also pushed aggressively for a much-needed improvement in ground catering services in Cairo in spite of EgyptAir's early opposition. The Ministry of Civil Aviation recently signed an agreement with six foreign airlines to establish a catering operation in competition with EgyptAir which itself, curiously, has taken a 20 per cent stake in the new venture.

Not all his "privatisation ventures" have proceeded smoothly. There was the case

of the withdrawal by a foreign company from its lease of the duty free shops at the new Cairo airport terminal after it found that it could not "deliver" agreed minimum revenues to the government. Dr Sultan as he had fought hard against EgyptAir's objections - the national carrier had a monopoly of the duty free shops at the old airport - to ensure the lease went to the most competitive tenderer. He says of the experience: "From our side, it was a shock (since the foreign operator withdrew), but it did not cause us financial losses."

Dr Sultan has clear views about the path to privatisation, but he would be among the first to acknowledge its difficulties. His prescription involves the separation of the budget from government control (as has been done in the case of EgyptAir), raising additional capital (most Egyptian public enterprises are starved of investment) and the liberalisation of management.

"You cannot sell a losing company," he says. "You have to make it a success before offering it to the public." He is confident that if Egyptian public enterprises are starved of funds which are unprofitable, they will be moved from the intensive care ward they would become attractive to investors.

He points out that unlike most developed and developing countries where "liquid money" - bank notes and deposits - within the banking system amounts to about 60 per cent of GNP, in Egypt it accounts for more than 100 per cent of GNP. "In a community like ours," he says, "finding that (such a state of affairs exists) represents a serious distortion... and reflects lack of investment opportunities."

In the case of EgyptAir's borrowings, he asks, would it not be more desirable to offer bonds rather than be dependent on international syndicates and banks?

Dr Sultan has various schemes to advance his theories and to encourage public sector enterprises such as EgyptAir to begin thinking commercially. He has persuaded the national carrier, for example, to take a 35 per cent stake in an investment company to develop tourist facilities.

MOTOR SECTOR
Assemble here

WHATEVER problems the foreign exchange shortage has caused for companies in Egypt, not everybody is complaining. For employees, dealers and suppliers of General Motors worldwide, it has brought an unexpected perk: the chance to go on a specially-priced package holiday.

In recent months, GM people have been flocking to Egypt from Europe, the US and Australia under a deal between GM's truck-assembly operation in Egypt and the government under which the GM subsidiary is allowed to retain a proportion of the foreign exchange generated by its tourism promotion efforts.

It is expected eventually to raise between \$2m and \$3m towards GM's total annual foreign exchange requirement of between \$80m and \$90m. It is one of the more ingenious stratagems dreamed up by companies hungry for hard currency to keep import-dependent operations in Egypt ticking over.

GM's chairman in Egypt, Mr Mohammad Razaq, says the company does not yet have a critical foreign exchange problem. In fact, 1988 was a relatively successful year for the Egyptian operation, a GM-Isuzu joint venture with Egyptian and Saudi investors assembling one-tonne Isuzu pick-ups from kits imported from Japan. The company, which started up three and a half years ago, may only have turned out 8,000 trucks last year against a design capacity

of 25,000 and a licensed capacity of 18,200, but its profits rose 12-fold thanks to tight controls on spending and inventory and to reduced production shifts. Output from the plant at 8th October City outside Cairo is as low as it is, says Mr Razaq, mainly because demand for trucks is depressed. He is desperately anxious to use his idle capacity to assemble luxury Chevrolet cars, but the government has yet to approve such a project and may well be reluctant to do so in the present atmosphere of ostensible austerity.

GM is probably the largest foreign investor in Egyptian industry, however, and it is certainly not immune from the foreign exchange crisis. Apart from offering cut-price holidays, it has been forced to contemplate various ways of circumventing the squeeze, including barter of aluminium or cotton. It has also put effort into building up local suppliers of basic components such as doors, seats and windcreens, taking the local content of GM Egypt's products up to a current level of 40 per cent.

But the company may not be able to take that process much further, and Mr Razaq admits he is worried about keeping things going in the next couple of years. "We are coping with the situation, but it's getting worse every month," he says. "For most business people who have to import raw materials, the future is a matter of grave concern."

Andrew Gowers

BALANCE OF PAYMENTS (\$m)			
	FY86/87	FY87/88	FY87/88
TRADE BALANCE	-4,978	-5,059	-5,905
Exports (f.o.b.)	3,576	2,264	3,274
Imports (c.i.f.)	-8,554	-7,323	-9,179
SERVICES BALANCE	-150	778	1,537
Receipts	3,444	4,016	4,571
Payments	3,594	3,238	3,034
Tourism	315	380	884
PAYMENTS	-3,899	-3,238	-2,634
of which interest payments	-1,292	-1,094	-783
TRANSFERS	3,480	3,357	3,424
Government	507	345	33
Worker remittances	2,973	3,012	3,385
Current account balance	-1,653	-924	-544
Long term capital balance	594	882	1,521
Balance on current and long term capital payments	-659	-32	977
Additions to debt service arrears	1,500	500	-
Total external debt	3,770	4,040	4,310

Source: Official statistics

Race to find new land

Continued from Page 2

of the Nile Delta. One important criteria is that land to be reclaimed should rise above the Nile level by 100 feet above the Nile level pumping costs make such land use uneconomic.

The projects are:

- A scheme to the west of the Delta which is already yielding results as the Nasr canal, utilising Nile waters, pushes out towards the coast. Land is being opened up in previously desert areas to the west of the main Cairo-Alexandria desert road.
- The North Sinal Project to the east of the Delta, which is proceeding slowly but plans are afoot to speed it up. A canal has been constructed that connects the east Nile tributary below the coastal town of Damietta with a point 29 km south of Port Said on the Suez Canal 90 km away. The next stage will be to build a

tunnel under the canal to carry water to the northern Sinal near el-Arish and along the east bank of the canal.

Dr el-Beltagi believes that these two projects, once completed, will make a big difference to Egypt's farming capacity. In the case of the Nasr canal project, 90,000 acres out of 450,000 acres has already been reclaimed in a project that is expected to be completed by 1993.

The North Sinal project envisages reclaiming 450,000 acres in two stages. The first stage of 250,000 acres is expected to take four years with the entire project being completed in a further two years. Total cost would reach \$1.5bn. Egypt is considering various "siphon systems" to transport water under the canal. Tenders for a \$40m highly sophisticated pumping system are being invited.

between \$2,500 and \$5,000 per acre. Land reclaimed can be used for a variety of purposes, including fish farming, horticulture, agro-industrial complexes and dairy farms.

Dr el-Beltagi said results from land recently opened up along the Nasr canal indicated that spectacular returns were possible, although he admitted there had been failures. The authorities are trying to stimulate private sector investment and hope to accelerate the process by giving quick approvals for land purchases and minimising bureaucratic interference. However, investors are still likely to approach these projects cautiously.

One attraction for investors in new land schemes is that the Government has pledged not to impose quotas or cropping requirements on pioneer farmers, unlike in the Delta and Nile Valley where farmers are obliged to grow so-called "government crops" such as cotton and sugar or risk penalties.

Egypt also has to resolve whether the tunnel under the Suez canal south of Port Said will be simply a water carrier, or whether it will be extended to accommodate road and rail transport as well. Dr el-Beltagi said organisations such as the World Bank had expressed interest in funding the North Sinal irrigation scheme and tunnel project.

The reclamation programme is aimed at providing jobs for the young unemployed, and at attracting local and foreign investors. Twenty per cent of land reclaimed is offered in small lots of up to five acres on generous credit terms to young "pioneers." The remaining 80 per cent is divided between individuals whose maximum holding can be 300 acres and companies with an upper limit of 50,000 acres.

Land is being sold at a little above cost, estimated to be

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FINANCIAL TIMES SURVEY

The region's industry suffered in the recession of the early 1980s. Even the prospering chemical sector is not the source of jobs that it once was. The need to innovate is clear, says Hazel Duffy, and the area's natural beauty is proving a spur to investment in tourism.



Sunset over Grangemouth (the possibility is being explored of linking tourism to the petro-chemical complex - see page 2) ... and Stirling Castle, where promoters have new attractions in mind



The periphery fights back

CENTRAL REGION is the wedge in the middle that was left over after Scotland had been carved up into administrative areas. It does not have the population and the spending power of neighbouring Strathclyde and West Lothian, which are centred on the cities of Glasgow and Edinburgh.

It does, however, sit conveniently at the confluence of Scotland's motorway system. The west of the region boasts fine scenery over to Loch Lomond. In Grangemouth, on the River Forth, it has the largest port on the east coast of Scotland. And it has a tradition of industrial activity which, in microcosm, reflects the development of industry in Scotland.

The impressively-sited town of Stirling, at the centre of the region, is dominated by its castle, which still serves to emphasise the strategic location of the town between the lowlands and highlands of Scotland.

The castle and the old town put Stirling firmly on the tourist map. Stirling council drew up an ambitious programme which would have included contracting out the management of the castle (a national monument) and making it more accessible to the main part of the town. The plan is being assessed by the Scottish Development Agency, following certain objections to the scheme by the Scottish Office.

But the initiative by the council, to make an economic virtue of its medieval past, illustrates the way in which the public authorities, increasingly working with the private sector, are trying to find a more secure base for the economy of the region.

The industry suffered severely in the recession of the early 1980s. Few companies were immune. The decline in engineering jobs hit a region which had already suffered the pit closures. Now, the chemicals industry, situated at Grangemouth, is enjoying the upside of the demand

Central Region of Scotland

THE REGION AND ITS PEOPLE	
Population (1988)	272,600
Population by age group:	
Working age	62 per cent
School age	15 per cent
Under-fives	6 per cent
Over-65	17 per cent
Employment:	
Total workforce	131,000
Primary/Energy sector	6 per cent (Scotland 5.3 per cent)
Manufacturing	25.5 per cent (22.8 per cent)
Construction	6.4 per cent (7.3 per cent)
Service	62.6 per cent (64.6 per cent)
Unemployment (March 1989)	11.8 per cent
(Scotland)	11.5 per cent
(UK)	7.7 per cent
Salaries (1987):	
Secretary	£7,221
Personnel manager	£20,400
Accountant (book-keeper)	£9,618
Accountant (senior)	£16,381
Computer programmer	£10,839
Electronics engineer	£12,049
Hourly wage rates (1987):	
Light assembler	£3.30
Semi-skilled production operator	£3.69
Lathe operator (turner)	£4.25
Machine tool-setter	£3.72
Plant labourer	£3.48

Sources: Central Region Council; SDA

some feature has to be highlighted to persuade tourists to linger. Around Falkirk, it is Roman remains, in the Clackmannan district the mill trail focuses on the past and present wool industry.

Falkirk, Stirling and Alloa were once the centre of the coal mining industry. There are still iron foundries, a reminder of the role they once played in the development of the area.

But the future has to be different. Towns like these all around Britain can no longer afford to take second place to the industrial dominance that gave them their livelihoods in the past. Image is important. They must be attractive to potential investors, and offer the sort of homes that the managers in the new technological and service industries want to live in.

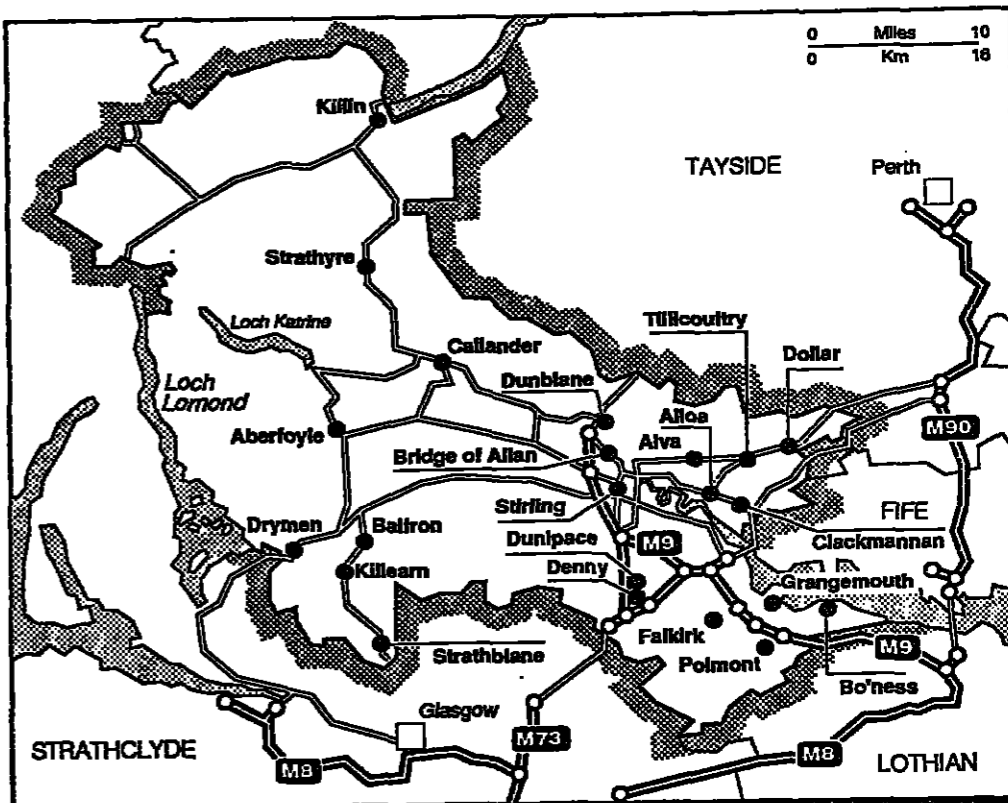
Falkirk is in the throes of smartening itself up. Pedestrianisation and one-way traffic schemes are being introduced, to allow the central district to be revealed.

The region has not been a prime target for investment by American and Japanese companies, and this has been a disappointment to the authorities. Blame is scattered at the doors of various institutions, but Livingston and Cumbernauld, close by, have provided stiff competition.

Wang, located on the campus of Stirling University, is a notable exception. Set up five years ago, it has not, however, proved to be the catalyst that would make others follow.

Service industries, apart from tourism, are not well represented in the region. The major exception is Scottish Amicable, which relocated its head office from Glasgow to a 300-year-old house about a mile outside Stirling many years ago.

The decision was made after a senior manager who lived in the area heard of the opportunity. On the whole, it has worked well. New offices have been added in the town. But big decisions on relocation are not often made quite so simply.



Continued on next page

PAGE 2: INDUSTRY; TOURISM / PAGE 3: STIRLING UNIVERSITY; SCOTTISH AMICABLE

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CENTRAL REGION of SCOTLAND 2

HAVING BEEN battered in the recession, industry in Central Scotland today shows signs of some vigour.

The chemicals business, particularly, is expanding again, following a massive retrenchment in the early 1980s. The relative robustness is welcome in Grangemouth, site of Scotland's largest concentration of chemical companies. There, market leaders such as BP Chemicals have embarked on major capital spending programmes, adding capacity notably in the specialty chemical sector.

The BP complex at Grangemouth produces a range of hydrocarbons, general chemicals, fine chemicals and solvents. Nearby, along the same stretch of industrial-park highway, competitors such as ICI and US-owned Rohm & Haas produce similar products, many of them used in the production and treatment of plastics.

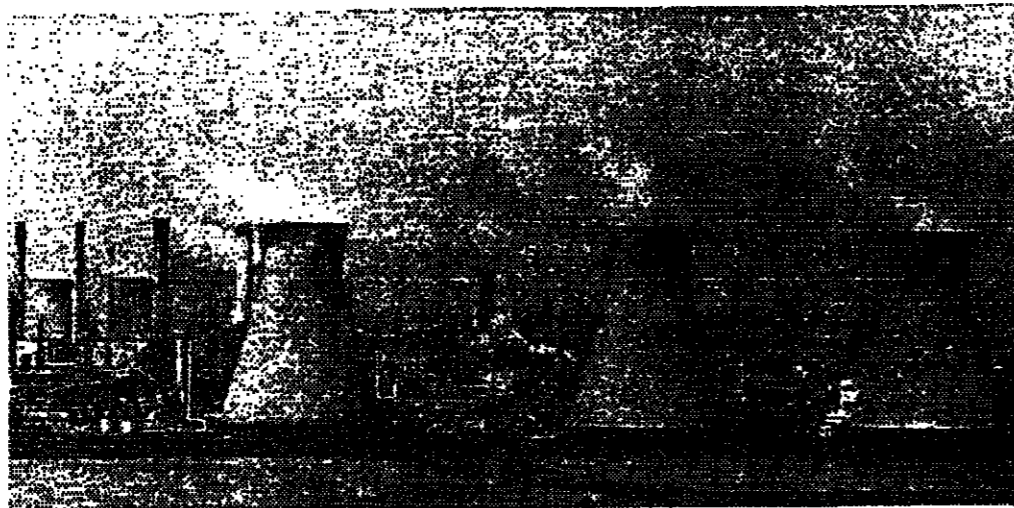
With a worldwide under-supply of ethylene and other chemicals, prices have soared. As a consequence, 1988 profits in the sector were at record levels, and have convinced management it is time, once again, to expand.

"The majority of the companies are spending to grow their existing businesses," Michael Andrews, plant manager at Rohm & Haas in Grangemouth, says. "And much of it is technology-driven. We are eager to meet the customers' requirements, to manufacture improved versions of our existing products."

Still, the investments won't necessarily mean more jobs. The major downturn of the early 1980s, fuelled by over-capacity and slack demand, forced chemical companies to rationalise operations. Productivity per worker has increased, through lay-offs and computerisation. Although booming, the chemicals sector is getting by with far fewer workers than it employed in the late 1970s.

The same is true in other heavy industries, such as oil refining. Meanwhile, other mainstays of Central Region, including textiles, went through similar rationalisation in the early 1980s, with a consequent heavy loss of jobs.

Hence an unemployment rate of nearly 12 per cent, higher than the Scottish average, despite at least three years of relatively buoyant economic growth. Regional development authorities recognise the need to encourage a shift away from the traditional, heavily cyclical industries. They hope electronics, timber processing, and spe-



The petro-chemical complex, at Grangemouth

INDUSTRY

Chemical reaction fails to create jobs

cially manufacturing will take up the slack. For that, workers will have to learn new skills, and it is on training that local government is placing the greatest emphasis.

Not everyone believes that the future is dim for heavy industry. Optimists point out that most companies have rationalised as much as they can: there is little operational fat left to carve away. If demand continues to grow, so should employment.

But many analysts expect the boom times to end, perhaps as soon as 1990. In the chemicals sector, for example, generally slower growth in major European markets, coupled with new capacity coming on stream this year, will again squeeze margins.

Also, environmental concerns are increasing, even among those in Grangemouth whose livelihood depends directly on the belching furnaces of the industrial park. The costs of meeting ever stricter emission-controls will inevitably increase.

If there is a downturn looming, the real crunch will come in the bulk chemicals sector, which is more cyclical than specialty chemicals. That is bound to hurt Grangemouth.

There are signs, however, that smaller companies in niche sectors could give the region an alternative to heavy industry. The Scottish Develop-

ment Authority, along with the three district councils in Central Region, are providing help to an array of small local firms. Land, services, loans, and grants are variously made available to companies likely to create or maintain jobs.

At the same time, Locate in Scotland, the country's foreign investment marketing arm, hopes to attract more North American, mainland European,

Many analysts expect the boom to end, perhaps by 1990

and Japanese firms to the region.

It points out that central Scotland is well served by motorways, has a good port at Grangemouth, and is a 30-45 minutes drive from two major airports, at Edinburgh and Glasgow.

A handful of foreign electronics firms have established manufacturing operations, notably Wang of the US. But the sector is still small, and overshadowed by Silicon Glen near Edinburgh.

Among smaller firms, the mood is bullish. Caberboard, a West German-owned timber-processing company formed from the assets of bankrupt Scottish Timber Products, is

producing at or near full practical capacity, manufacturing chipboard at a large plant south of Stirling.

Company management expects the workforce to expand to nearly 600, from 350 currently, once a new manufacturing line is completed.

Tom Allison, operations director, says his main clients are furniture manufacturers and the building trade. He believes Caberboard can cater to their needs by producing higher valued-added products, manufactured to client specifications.

Like many smaller companies, Caberboard is more interested in the UK than in continental Europe, despite the promise of an internal free market from 1992.

The company's markets are dominated by foreign exporters - the North Americans and Scandinavians particularly - and Mr Allison says his goal is "to minimise the market share of the foreign companies." He adds: "There is more than enough on our platter here, 1992 notwithstanding."

Caberboard, like most indigenous Central Region companies, believes the district and regional councils are important to the development of Scottish industry. The company is getting support from Stirling council, for instance, in securing permits for a plant expansion, and will receive a grant

to build a rail branch-line linking the factory to the main British Rail line.

Robbie Taylor, managing director of family castings and foundry company Robert Taylor Holdings, agrees. "The attitude of the local council is entrepreneurial, and very supportive of private enterprise," he says.

His group manufactures iron castings for a range of industrial clients, in the UK and, to a lesser extent in the US and mainland Europe.

He, too, says business is booming. "The market is more buoyant at the top of the cycle than I can ever remember. And it is continuing for the foreseeable future, which for us, based on our order books, is about six months out."

But he believes slower growth is on its way. This time, however, he says management has been careful not to over-react in good times by expanding too quickly, only to face major retrenchment when economic growth slows.

Mr Taylor, as a supporter of the regional and district councils, has concerns about the Government's plan to combine training and regional development activities under Scottish Enterprise. Critics have warned that the move could destroy the SDA, which until now has spearheaded industrial policy-making in the country.

"The plan should not interfere with the best part of the SDA, Taylor says. "The SDA has, over 10 years, come to understand the manufacturing base of Scotland. It knows how to operate in a bureaucratic environment but in an entrepreneurial fashion."

Scottish business in general, and in Central Region in particular, insists that regional development policies are necessary if long-term improvement in the Scottish industrial base is to be achieved.

While good growth in chemicals, distilling, and refining is recognised as important, business and local government appear to agree that the region's future should lie in high technology, valued-added industries.

Skills are lacking in those areas, observers agree. Training schemes and selective grants for business are a solution that has gained support in the region. It may not please Mrs Thatcher, but many business people in Central Region believe there is a role for the Government in forging a blueprint for Scotland's industrial future.

Matthew Horeman

TOURISM

Promoting the loch

TOURIST projects totalling around £70m are planned for the area that includes Loch Lomond, Stirling and the Trossachs.

Most is destined for the shores around the southern end of Loch Lomond. Although the loch is known worldwide for its outstanding beauty, the hotel industry has been slow to realise its purely aesthetic potential - preferring parts of Europe, where the climate is more predictable, or of Britain, where there is a marked business, as well as tourist, demand.

The inclusion of conference facilities in the planned projects brings the gap. The plans include a £30m 200-bedroom hotel, which will have two international-class golf courses; a £18.5m country club hotel, with golf; and the introduction of a catamaran-type cruise ship, with year-round facilities, which is planned by an Anglo-Australian venture, followed by refurbishment of the Maid of the Loch.

These projects will be aimed mostly at the expensive end of the tourist market. But the tourist promoters in the region, which corresponds to the administrative Central Region, aims to attract a much wider market.

To some extent, it has already succeeded. Each year, 200,000 people visit Stirling Castle alone. The promoters believe this could go up to 750,000 with the addition of other attractions to the medieval castle.

Stirling council, with the help of consultants, has drawn up an ambitious plan for a number of projects in the old town, including a funicular railway to the castle. This part of the plan was called in by the Scottish Office (the castle is a national monument) and is currently under review by the Scottish Development Agency.

The plans aim to attract private sector investment, with the council financing improvements to the infrastructure, and the environment. The management of the castle would be contracted out to the private sector. The council says that up to 500 jobs could be created.

Tourist developments feature high on the region's



The statue of Robert the Bruce, at Stirling

submission to the European Regional Development Fund for financial assistance. The region, once heavily industrial, is seeking alternative strengths on which to build its economy of the future. Tourism employs around 3,500 (full-time equivalents, many of the jobs being part-time), which the current investment plans for the area would boost by another 1,000.

The tourist board and the councils plan many lower-key, but potentially valuable, contributions, which will attract more visitors, and (vital) encourage them to stay longer. The short-stay holiday has become a feature of the growth of British tourism. Many visitors to the area come from adjacent regions, and remain only for the day. Many others pass

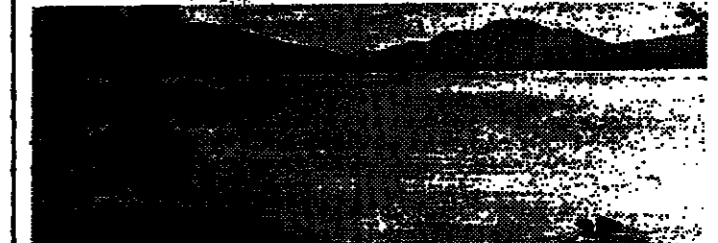
through on their way to the Highlands, stopping to sample its own particular attractions. To persuade them to linger, accommodation and general facilities need to be constantly improved. The addition of bathrooms in guesthouse and bed-and-breakfast accommodation, improvements to caravan parks (some now have swimming pools) are important in making the region attractive to families as well as to the conference market.

The past is being re-created to appeal to the growing leisure-demands of the present. An old mill at Kilfin is being converted to accommodate the St Fillan "healing stones", which have a 900-year history; an old church will become the home of a new "Bob Roy and Trossachs" centre; a wool centre is being built up, which will demonstrate all the skills of sheep farming.

The Roman occupation of central Scotland is a theme that could be relevant in the area now covered by Falkirk, the industrial town in the east of the region. The possibility is even being explored of linking tourism to the petrochemical complex at Grangemouth.

Good-quality accommodation is vital. Considerable scope remains for the development of budget hotels, and hotels which can offer comfort all the year-round, in the manner of the old coaching inns. The region has spectacular scenery in abundance. To capitalise on this, in response to the soaring demand for leisure, will require many skills. Tourism needs good financial backers. The region is moving in the right direction.

Hezel Duffy



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The periphery fights back

Continued from Page 1

The region also has two technical colleges which provide a range of training opportunities. They are the main vocational training centres in the region.

Training is a prime requirement in central Scotland. Many skills relevant to manufacturing industry have become redundant. At the same time, shortages have highlighted skills surpluses in many sectors, including electronics and chemicals.

The chamber of commerce for central Scotland, with local businessmen, is bidding to become one of the pilot agencies that will combine training and economic development under the arrangements which the Government proposes for the new Scottish Enterprise. A budget of £16m-£18m is estimated for the training side of

the project, to which economic development as now carried out by the SDA would possibly be added later.

Central Region became eligible to apply for assistance from the European Regional Development Fund last February, when it was defined by Brussels as an area that had suffered industrial decline and would benefit from help in making the adjustment to a more-varied economic base.

Brussels money would provide a significant boost to the efforts of the local authorities. The programme identifies a range of schemes, including resources to help the small business sector to expand, which would be carried out through enterprise trusts; the improvement of tourist facilities and marketing of tourism;

improvements to roads, ports, public transport; and the landscaping of industrial eyesores.

Assistance with training has to be channelled through the Social Fund, in Brussels, but an outline was included in the submission. It it oriented towards meeting the skills shortages and providing employment for school-leavers, young people, and disadvantaged groups.

The public and private sectors in Scotland have established a new harmony in the last few years. They have come together to bid for a better future. In Central Region, there is still much to achieve. But there is also a solid base of industrial and educational strength, on which to test this partnership. It will be watched with interest.

EniChem Elastomers Ltd



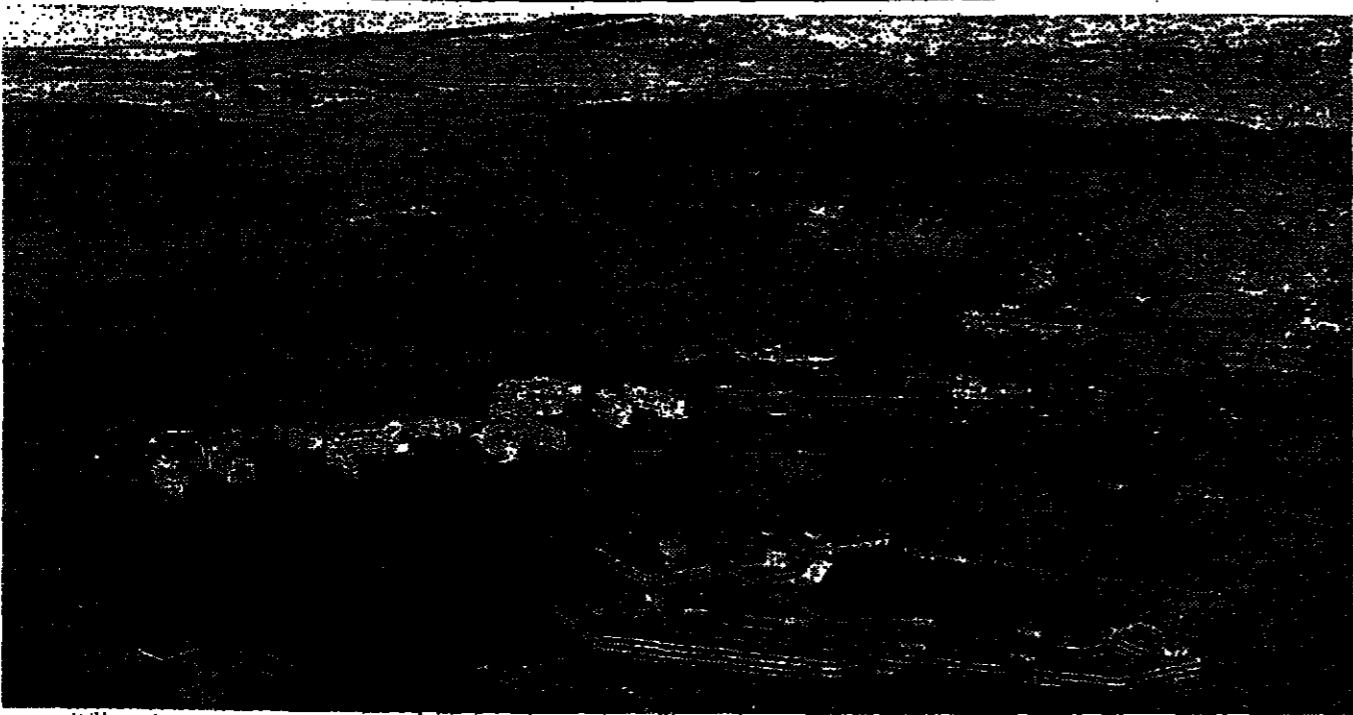
We have been producing synthetic rubber and latex in the U.K. since 1958. Our plant in Grangemouth went into operations in 1963.

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There are successful companies in the region that perform well and look forward to the future with confidence. We are among them.

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CENTRAL REGION of SCOTLAND 3



The campus of the University of Stirling — a home of business and innovation

Mathew Horsman on the enterprise of Stirling University

Sustained by its expertise

SET AMID landscaped lawns and trees, with a spectacular view of the historic Wallace Monument, the University of Stirling has made a virtue of independence and innovation. Faced with a 25 per cent cut in its government grant in 1981, the governing body embarked on a campaign to save the university from possible closure, tapping the private sector for research and development grants, and aggressively marketing the campus to part-time students, particularly from business.

The results have been impressive. In 1978, about 95 per cent of the university's operating budget came from the Government's block recurring grant. By last year, the figure had fallen to 55 per cent, with the remainder coming from research grants, special fees, and from the private sec-

tor companies. Stirling has set up to market some of its expertise. At the same time, the university has secured a reputation as a major business school, with the opening last year of the Stirling Management Centre, and the expansion of full-time courses in subjects such as accounting, finance, and economics. The Management Centre, built with help from Stirling District Council, attracts students from around the world, and is an important resource for local companies, offering special, tailored courses on a range of topics important to business.

The Management Centre will be expanded this year, with the addition of a new building for classrooms. The university is also wooing private companies to set up endowed chairs. National Westminster Bank has already provided money for a chair in Japanese Business Studies, while Wang, the US computer company, backs a graduate student Fellow each year. Wang is an example of the sort of synergy that Stirling's principal, Prof John Forty,

hopes to nurture. The company has established manufacturing operations on a corner of the campus, assembling and shipping \$200m worth of lap-top computers annually for the European market. Wang's general manager at the Stirling plant, Ronnie Gillilan, cautions that "the University was not the deciding principle for locating here". Wang was looking for additional manufacturing capacity in the UK, and was attracted by the low cost of setting up in Central Scotland.

"But the university has been very helpful," Mr. Gillilan says. "We have an excellent relationship, and use each other's resources." Local officials clearly hoped that Wang's decision to invest in the region might lead to an explosion in electronics manufacturing. After all, Wang was one of the prime catalysts for the regeneration of ageing textiles centre Lowell, Massachusetts, now a thriving high-tech centre. The regional council even invited officials from Lowell to address local business earlier this year, to explain how Central Region could duplicate the Lowell miracle.

The Institute for Retail Studies benefits from close ties with the private sector

concerned about the Government's underfunding of universities in general, there is little doubt that Stirling will get even bigger in the next three to five years.

Already, 3,200 students attend, and each year about 12,000 apply for 650 fully-funded places. Alan Forrester, press and alumni relations officer, believes the university could increase that number easily, if the Government agrees to provide extra funding. In anticipation, new residences are planned.

Even if additional state money is denied, the university intends to expand its short courses, summer courses, and special business training programmes. That will insure a steady increase in the number of students.

The short courses, particularly, attract interest. With help from the Professional, Industrial, and Commercial Updating (Pickup) programme, funded in part by the University Grants Committee, Stirling offers short vocational courses that range from Accounting and Software Engineering to

FOR OVER three centuries, Craigforth House has nestled beneath the Crag, a basalt rocky outcrop that is a miniature of the Stirling Castle rock about a mile away.

The house is situated amid fields, farms and the meandering river Forth, with views over the Carse of Forth against a background of the Ochil Hills.

It sounds an ideal setting for a Scottish stately home. But for four decades it has housed the administrative head office of one of Scotland's major life companies, Scottish Amicable Life Assurance Society.

During the last 20 years, it has become common for life companies to relocate most, or all, of their head office functions, both from the local labour-force and from Glasgow. Nevertheless, it was considered suitable for one immediate purpose — as a storage facility for records. The rural setting looked ideal for this purpose at a time when the wartime risk of loss was still prominent in many people's minds.

From there, the centre simply expanded; and, because the purchase included 90 acres of ground, there were no space restrictions on development. First, the pensions department moved. Then the first computer purchased by Scottish Amicable was installed in the old stable block — those early models required a solid floor.

As the operation grew, staffing presented a problem. But there was no shortage of people seeking employment, particularly during and since the recession years, which saw a succession of manufacturing operations closed down in the area — and the company operates on a Glasgow, rather than a local, pay scale.

Even so, the lack of public transport obliged Scottish Amicable to lay on its own transport, ensure adequate parking space, and provide lunch facilities, in order to get the staff it required.

The complex of office buildings has since grown on the area surrounding the house. Craigforth House itself now contains the recruitment, training and staff operations — from where employees can still see rabbits playing and deer grazing on the lawn at the back.

Other parts of the office complex, which has grown over the years, house not only pensions and computer facilities, but also new business, premium collection, claim payments, and the group's printing requirements. Scottish Amicable gets almost 90 per cent of its business from south of the Tweed; and the economic success in the south has split over to this part of Scotland, in that there are now 850 employees at Craigforth (650 of them women), while at least 15 coaches take employees to and from work.

The company has excellent relations with the district and regional authorities, Stirling University and the local organisations. So there are no wor-



With 90 acres of ground, there were no space restrictions on development

PROFILE: SCOTTISH AMICABLE

Life in a stately home

ries over future development — the sort of success problem that causes sleepless nights for other Scottish life companies. Scottish Amicable knows where it will site its next office block when it is needed. The company's achievements would no doubt have the approval of John Callender, master armorer to King James VI of Scotland. He was owed a substantial sum of money by the king, and had sought payment without success. When the king became James I of England, James Callender undertook the journey to London to pursue his claim.

In London, a member of the retinue settled the claim, but paid out the required sum in English, not Scottish, pounds — and English pounds were worth many times the value of Scottish pounds. The proceeds of this mistake provided the funds to enable James Callender and his descendants to buy the lands and build the first Craigforth House.

English money is now enabling the present owners to expand on this initial achievement.

Eric Short

The university is wooing private companies to set up endowed chairs

tor companies. Stirling has set up to market some of its expertise. At the same time, the university has secured a reputation as a major business school, with the opening last year of the Stirling Management Centre, and the expansion of full-time courses in subjects such as accounting, finance, and economics. The Management Centre, built with help from Stirling District Council, attracts students from around the world, and is an important resource for local companies, offering special, tailored courses on a range of topics important to business. The Management Centre will be expanded this year, with the addition of a new building for classrooms. The university is also wooing private companies to set up endowed chairs. National Westminster Bank has already provided money for a chair in Japanese Business Studies, while Wang, the US computer company, backs a graduate student Fellow each year. Wang is an example of the sort of synergy that Stirling's principal, Prof John Forty,

IT'S EASY TO SEE THE BENEFITS

COSTS

LOCATION

WORKFORCE

RESEARCH

TECHNOLOGY

How to meet the challenges of the 1990's — a question constantly being asked by all forward-looking companies.

Unfortunately, it is one not easily answered. Companies in Central Region, however, have a head start on those operating in other parts of the United Kingdom.

Firstly, operating costs are relatively low. Property rentals and land costs are highly competitive. A pool of skilled labour is readily available and an excellent transportation network allows fast and efficient sourcing of raw materials and components and markets to be easily accessed.

Secondly, companies are surrounded by outstanding R & D facilities and opportunities to utilise some of the country's finest graduates. Seven of Scotland's eight universities are within an hour's drive of the region, while at Stirling University Innovation Park sites and units are available for companies at the leading edge of technology.

And thirdly, the area's healthy mix of companies means unique opportunities to develop Just In Time manufacturing techniques and joint venture and sub-contracting contracts.

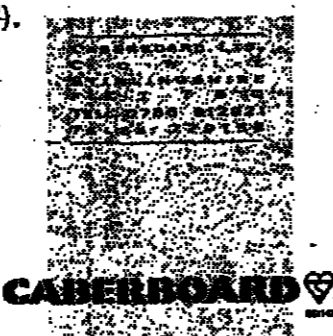
Diversity is the key to the Central economy. Traditional and indigenous businesses operate alongside multi-national giants. Major companies such as Wang, ICI, Scottish Amicable and British Alcan all profit from the Central experience.

For further information on how Central Region can help your company expand into the 1990's call or write to David Moffat, Industrial Development Department, Central Regional Council, Stirling FK8 2NH. Tel: 0786 73111 Ext. 475. Fax: 0786 50802.



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Loudwater offices project

Wilson (Connolly) Properties has awarded a contract worth in excess of £13m to KYLE STEWART to design and construct 'Kingsmead', a development of five office buildings at Loudwater, near High Wycombe, Buckinghamshire.

The scheme comprises three two-storey and two three-storey office buildings totalling 165,000 sq ft. Each will have a car park and will be in its own landscaped surroundings.

Construction generally is of concrete frame with brick cladding and tiled structural steel roofs. All buildings will have fully accessed pedestrian raised floors and suspended ceilings.

Kyle Stewart will install internal and external lighting. The buildings will be air conditioned.

Work has begun on site and is due for completion April 1990.

CONSTRUCTION CONTRACTS

Muted response to roads Green Paper

By Andrew Taylor, Construction Correspondent

The construction industry has given a cool reception to Government proposals aimed at making it easier for developers to build private toll roads in Britain.

The plans were announced last week by Mr Paul Channon, Transport Secretary, in a consultation paper "New Roads by New Means".

The Secretary of State invited bids from private sector companies to increase road capacity between Birmingham and Manchester and to construct a Birmingham northern relief road. Tarmac is expected to be among the bidders.

Mr Channon proposes that the Transport Secretary should be given authority to approve privately financed road schemes, subject to a public inquiry. At present privately financed roads have to be approved by acts of Parliament.

A hybrid bill was used to authorise the Channel tunnel and the privately financed road toll-bridge being built across the river Thames at Dartford. Mr Channon said parliamentary time was limited and alternative ways of approving

schemes should be found. Construction companies, however, say the proposals could lead to higher costs and even worse planning delays than at present, if public inquiries were to be held into most schemes.

Mr John Fletcher, a director of Trafalgar House, the construction, property, shipping and hotels group, said: "There will have to be some changes if the private sector is going to respond effectively to this initiative."

Mr Channon says in most cases schemes will have to be open to competition to ensure value for money.

One chairman of another leading construction company said: "These proposals offer very little incentive to private companies particularly after the Government has just doubled to £12bn the money avail-

able for the public roads programme. The Federation of Civil Engineering Contractors, which represents most of Britain's road-building companies, said the Green Paper "does not on first reading seem to increase by much the opportunities for involving private finance on terms that would be attractive to contractors or bankers." The consultative paper also proposes to:

• allow private developers to set their own tolls on routes other than river crossings, where there was sufficient competition from other roads.

• permit government to compulsorily acquire land for developers.

• ease the rules by which individual private sector schemes are judged on value for money against publicly funded road schemes.

• permit developers to develop car-only toll lanes on busy motorways.

Oxford science park

WILCON CONSTRUCTION has commenced work on the 275,000 sq ft Oxford Science Park at Kidlington, Oxford. Phase I involves the construction of two 18,000 sq ft two-storey blocks and one three-storey block of 44,000 sq ft - some 75,000 sq ft in total. Each block will have a steel and pre-cast concrete frame with a steep pitched tiled roof and overhanging eaves. Elevations comprise detailed cavity brickwork and polyester coated aluminium windows and doors with sealed double glazing. Each block is fully air conditioned, has raised modular access floors and suspended ceilings and is serviced by either one or two lifts. Work on the £6.5m negotiated building contract commenced in April and is scheduled for completion in March 1990.

Regional offices in Leicester

SIR ROBERT McALPINE AND SONS has been awarded a £6.3m contract by London and Manchester Assurance to build regional offices in Leicester. Located on a 2,500 sq metre triangular site in South Albion Street, the layout of the seven-story office block is of a stepped design. Supported on piled foundations, construction of the building will be of reinforced concrete frame and floors. The external walls will be brick clad with aluminium colour-coated windows under clay tiled roofs. The ground floor will be a car park. The contract also covers the fitting-out of the office block which will provide a total floor area of 5,100 metres. It will have raised flooring and a grid suspended ceiling system. A conference room and full canteen and kitchen facilities will also be provided.

Business village in Docklands

Joint developers London & Edinburgh Trust and Balfour Beatty Developments have awarded phase 2 of their Glemgall Bridge project in the Isle of Dogs to MOWLEM-MANAGEMENT. Valued at £28m, it is similar to but larger than phase 1 and the development has been described as "London Docklands only business village". Phase 2 comprises the construction of 11 blocks up to six storeys high facing eastwards across Millwall Dock and opposite the new London Arena. It will have 124,000 sq ft of office space, 55,000 sq ft of business and retail space, 25 flats, a waterside restaurant and car parking at basement level for 187 cars.

The buildings will principally be of in situ reinforced concrete frame construction, clad predominantly in brick and reconstituted stone, with areas of curtain walling. Roofs will mostly be pitched with artificial slates and fitting out to developers' standard. Excavation for the car park will be in difficult ground conditions requiring sheet steel piling. Work on site has started with completion scheduled for December 1990.

A £14m contract awarded by Manchester City Council for Merseybank Estate includes prior to repair works involving new doors and windows, cavity and loft insulation and pointing at 486 homes.

Building regional processing centre

Repairs to Merseybank Estate in Manchester, an extension to Urnston Grammar School in Trafford and a new DHSS regional processing centre are among £14m worth of contracts won by LAING NORTH WEST.

Work on the regional processing centre at Ashton in Makerfield began recently. The £5m contract to design and construct the building was placed by the Government's Property Services.

Work on site has started with completion scheduled for December 1990.



Swiss Air Transport Company Ltd.

Notice to Holders of the Warrants of the 8% US\$ Bonds with Warrants 1984-91 of Swissair Finance (B.V.I.) Limited, British Virgin Islands

We refer to the capital increase of Swissair, Swiss Air Transport Company Ltd. and the corresponding notice to the warrant holders of April 7, 1989.

According to the description of the warrants the purchase price of Sfr. 958.- per bearer share of Swissair in the nominal amount of Sfr. 350 each has been reduced to Sfr. 936.-.

The adjusted price is effective as of May 22, 1989.

May 30, 1989

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For further information contact: John Talbot or Lee Manning Arthur Andersen & Co. P.O. Box 55 1 Surrey Street London WC2R 2NT Telephone: 01-836 1200 Facsimile: 01-831 1133 Telex: 8812711

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The Joint Receivers offer for sale the trading assets of Andrew Stewart (Woollews) Ltd, Galashiels and Jedburgh, manufacturers of high quality cashmere and lambswool knitwear, cloth, mohair rugs and scarves, and ladies' co-ordinated tailored clothing. 1988 turnover in home and export markets: £2.5m; employees: 134; current order books: c. £750,000; three retail shops. For further details contact the Joint Receivers: D. D. McGruther or Alastair W. T. White, Grant Thornton, Chartered Accountants, 112 West George Street, Glasgow G2 1JF. Telephone: 041 332 7484; Telex: 777726 Facsimile: 041 333 0581. Authorised by the Institute of Chartered Accountants in England and Wales to carry on investment business.

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The company operates from seven retail outlets in prime high street or shopping centre locations throughout the country. Turnover about £700,000 pa. For further details contact the Joint Administrative Receivers, Ian Holland or John Bennett at: Cannon Beckman & Partners, Hobson House, 155 Gower Street, London WC1E 6BT. Telephone No: 01-387 2888, Fax No: 01-388 0600

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The company operates from seven retail outlets in prime high street or shopping centre locations throughout the country. Turnover about £700,000 pa. For further details contact the Joint Administrative Receivers, Ian Holland or John Bennett at: Cannon Beckman & Partners, Hobson House, 155 Gower Street, London WC1E 6BT. Telephone No: 01-387 2888, Fax No: 01-388 0600

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CURRENCIES, MONEY AND CAPITAL MARKETS

CURRENCIES AND MONEY REVIEW

Futures hedge the interest rate question

HOW DOES the market view the future of London interest rates, following last week's decision to increase base rates and Thursday's announcement of unispring April UK trade figures?

But the question on whether rates are likely to go higher is perhaps best addressed to the short sterling contract on the London futures market (Liffe), and the answer there is somewhat ambiguous.

contract at the end of last week indicated just how bearish sentiment is in London and that the price of the contract bears little relationship to the underlying cash value.

86.25, and a fall to the region of 86.10-90.

Colin Millham

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

Table with columns for National and Regional Markets, FT-Actuaries World Indices, and Dollar Index. Includes sub-tables for Friday May 26 1989 and Thursday May 25 1989.

£ IN NEW YORK

Table showing exchange rates for £ in New York, including columns for Date, Rate, and Previous.

CURRENCY RATES

Table showing various currency rates, including columns for Currency, Rate, and Previous.

CURRENCY MOVEMENTS

Table showing currency movements, including columns for Currency, Rate, and Change.

OTHER CURRENCIES

Table showing other currencies, including columns for Currency, Rate, and Previous.

STERLING INDEX

Table showing the Sterling Index, including columns for Date, Index, and Previous.

EURO-CURRENCY INTEREST RATES

Table showing Euro-currency interest rates, including columns for Currency, Rate, and Previous.

POUND SPOT-FORWARD AGAINST THE POUND

Table showing pound spot-forward rates against the pound, including columns for Term, Rate, and Previous.

DOLLAR SPOT-FORWARD AGAINST THE DOLLAR

Table showing dollar spot-forward rates against the dollar, including columns for Term, Rate, and Previous.

EXCHANGE CROSS RATES

Table showing exchange cross rates, including columns for Currency, Rate, and Previous.

FT-INTERBANK FIXING

Table showing FT-Interbank Fixing, including columns for Term, Rate, and Previous.

MONEY RATES

Table showing money rates, including columns for Term, Rate, and Previous.

LONDON MONEY RATES

Table showing London money rates, including columns for Term, Rate, and Previous.

MONEY MARKETS

Dollar remains firm in subdued trading

THE DOLLAR was confined to a narrow range in quiet trading yesterday, with volume restricted by the close of financial centres in the US and UK.

NEW YORK

There was no intervention by the West German Bundesbank but the Bank of Japan was active in Tokyo, intervening on several occasions to sell the dollar.

LONDON

The Italian lira lost ground against the dollar in Milan. The US unit was fixed at L1.454 compared with L1.423.5 on Friday.

FRANKFURT

The Italian lira lost ground against the dollar in Milan. The US unit was fixed at L1.454 compared with L1.423.5 on Friday.

EUROPEAN OPTIONS EXCHANGE

Table showing European options exchange, including columns for Series, Vol, and Price.

BASE LENDING RATES

Table showing base lending rates, including columns for Bank, Rate, and Previous.

US unit retains its firm underpinnings

In Frankfurt the Bundesbank announced that it will not be holding a news conference after a meeting of the central council on Thursday.

FRANKFURT

The Italian lira lost ground against the dollar in Milan. The US unit was fixed at L1.454 compared with L1.423.5 on Friday.

MILAN

The Italian lira lost ground against the dollar in Milan. The US unit was fixed at L1.454 compared with L1.423.5 on Friday.

PARIS

The Italian lira lost ground against the dollar in Milan. The US unit was fixed at L1.454 compared with L1.423.5 on Friday.

Advertisement for The Hokkaido Electric Power Co., Inc. Japanese Yen 20,000,000,000 Floating Rate Notes 1992. Interest Rate 5.15% per annum. Interest Period 30th May 1989 to 30th November 1989.

Table showing Bank of England Treasury Bill Tender, including columns for Bill, Amount, and Rate.

FIXED INTEREST STOCKS

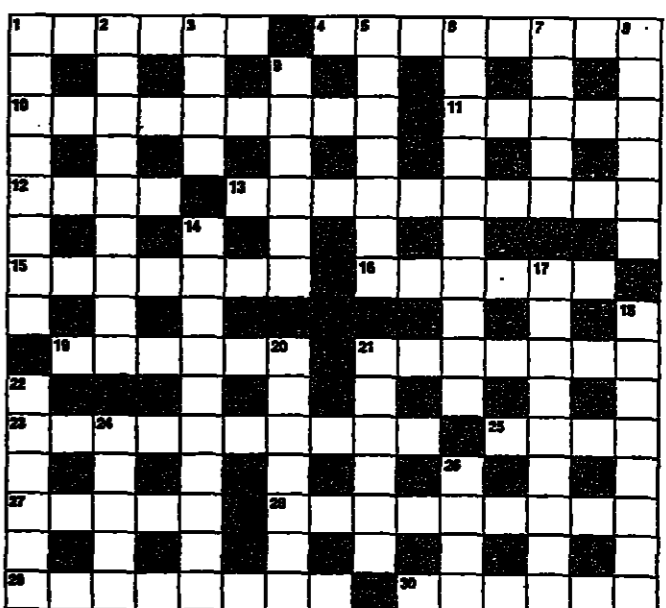
Table showing fixed interest stocks, including columns for Issue, Price, and Yield.

RIGHTS OFFERS

Table showing rights offers, including columns for Issue, Price, and Yield.

CROSSWORD

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- 1 French painter read novel at home (6)
2 Scott's senior monk (8,5)
3 Cooked pie - repeat before another meal? (9)
4 Certain to meet bridge player by river (4)
5 Horrify a gentle friend (5)
6 Before writing there is a...

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Prices on any telephone ring direct-0898 4 + five digit code (listed below). Calls charged at 86p per minute peak and 25p off peak, inc VAT

AUTHORISED UNIT TRUSTS

Main table listing various unit trusts with columns for Name, Unit Price, and other financial details. Includes sub-sections like 'Key Fund Managers Ltd' and 'Legal & General'.

GUIDE TO UNIT TRUST PRICING. Contains instructions on how to use the unit price information, including details on currency, rounding, and cancellation of orders.

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FT UNIT TRUST INFORMATION SERVICE

For Current Unit Trust Prices on any telephone ring direct-0836 4 + five digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information with columns for Name, Price, Yield, and other financial metrics. Includes sections for 'OTHER UK UNIT TRUSTS' and 'INSURANCES'.

OTHER UK UNIT TRUSTS

INSURANCES

FT UNIT TRUST INFORMATION SERVICE

For Current Unit Prices on any telephone ring direct 0836 4... five digit code (listed below). Calls charged at 30p per minute peak and 25p off peak, inc VAT

Main table containing unit trust information with columns for Name, Price, Yield, and other financial metrics. Includes sections for various regions like Jersey, Guernsey, and Offshore and Overseas.

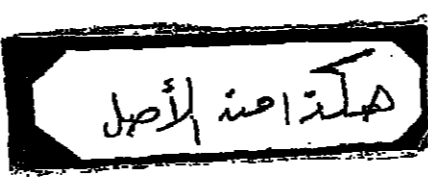
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FT UNIT TRUST INFORMATION SERVICE

Table of FT Unit Trust Information Service, listing various unit trusts such as Equitic International, Waring Investment Management, and others, with columns for Name, Type, and other details.

LONDON SHARE SERVICE

Table of London Share Service, including sections for British Funds, Commonwealth & African Loans, Foreign Bonds & Rails, Money Market Bank Accounts, and Unit Trusts, with columns for Name, Price, and other financial data.



LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct 0698 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

AMERICANS - Contd BUILDING, TIMBER, ROADS Contd DRAPERY AND STORES - Contd ENGINEERING INDUSTRIALS (Miscel.) - Contd INDUSTRIALS (Miscel.) - Contd

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1300 Callnet Sfr, 1310 Callnet Sfr, 1320 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1330 Callnet Sfr, 1340 Callnet Sfr, 1350 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1360 Callnet Sfr, 1370 Callnet Sfr, 1380 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1390 Callnet Sfr, 1400 Callnet Sfr, 1410 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1420 Callnet Sfr, 1430 Callnet Sfr, 1440 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1450 Callnet Sfr, 1460 Callnet Sfr, 1470 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1480 Callnet Sfr, 1490 Callnet Sfr, 1500 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1510 Callnet Sfr, 1520 Callnet Sfr, 1530 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1540 Callnet Sfr, 1550 Callnet Sfr, 1560 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1570 Callnet Sfr, 1580 Callnet Sfr, 1590 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1600 Callnet Sfr, 1610 Callnet Sfr, 1620 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1630 Callnet Sfr, 1640 Callnet Sfr, 1650 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1660 Callnet Sfr, 1670 Callnet Sfr, 1680 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1690 Callnet Sfr, 1700 Callnet Sfr, 1710 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1720 Callnet Sfr, 1730 Callnet Sfr, 1740 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1750 Callnet Sfr, 1760 Callnet Sfr, 1770 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1780 Callnet Sfr, 1790 Callnet Sfr, 1800 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1810 Callnet Sfr, 1820 Callnet Sfr, 1830 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1840 Callnet Sfr, 1850 Callnet Sfr, 1860 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1870 Callnet Sfr, 1880 Callnet Sfr, 1890 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1900 Callnet Sfr, 1910 Callnet Sfr, 1920 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1930 Callnet Sfr, 1940 Callnet Sfr, 1950 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1960 Callnet Sfr, 1970 Callnet Sfr, 1980 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 1990 Callnet Sfr, 2000 Callnet Sfr, 2010 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 2020 Callnet Sfr, 2030 Callnet Sfr, 2040 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 2050 Callnet Sfr, 2060 Callnet Sfr, 2070 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 2080 Callnet Sfr, 2090 Callnet Sfr, 2100 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 2110 Callnet Sfr, 2120 Callnet Sfr, 2130 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 2140 Callnet Sfr, 2150 Callnet Sfr, 2160 Callnet Sfr.

Table with columns: Stock, Price, Div, Last, Dividends, etc. Includes companies like 2170 Callnet Sfr, 2180 Callnet Sfr, 2190 Callnet Sfr.

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LONDON SHARE SERVICE

For Latest Share Prices on any telephone ring direct-0836 43 + four digit code (listed below). Calls charged at 38p per minute peak and 25p off peak, inc VAT

INSURANCES - Contd

Table listing insurance companies and their share prices, including details like company name, price, and market status.

PAPER, PRINTING, ADVERTISING - Contd

Table listing paper, printing, and advertising companies and their share prices.

TEXTILES

Table listing textile companies and their share prices.

TRUSTS, FINANCE, LAND - Contd

Table listing trusts, finance, and land companies and their share prices.

OIL AND GAS - Contd

Table listing oil and gas companies and their share prices.

MINES - Contd

Table listing mining companies and their share prices.

LEISURE

Table listing leisure companies and their share prices.

PROPERTY

Table listing property companies and their share prices.

TOBACCO

Table listing tobacco companies and their share prices.

TRUSTS, FINANCE, LAND

Table listing trusts, finance, and land companies and their share prices.

OVERSEAS TRADERS

Table listing overseas traders and their share prices.

MISCELLANEOUS

Table listing miscellaneous companies and their share prices.

MOTORS, AIRCRAFT TRADES

Table listing motor and aircraft trade companies and their share prices.

COMMERCIAL VEHICLES

Table listing commercial vehicle companies and their share prices.

FINANCE, LAND, ETC

Table listing finance, land, and other companies and their share prices.

PLANTATIONS

Table listing plantation companies and their share prices.

TEAS

Table listing tea companies and their share prices.

MINES

Table listing mining companies and their share prices.

NEWSPAPERS, PUBLISHERS

Table listing newspaper and publishing companies and their share prices.

SHIPPING

Table listing shipping companies and their share prices.

SHOES AND LEATHER

Table listing shoe and leather companies and their share prices.

SOUTH AFRICANS

Table listing South African companies and their share prices.

OIL AND GAS

Table listing oil and gas companies and their share prices.

REGIONAL & IRISH STOCKS

Table listing regional and Irish stocks and their share prices.

PAPER, PRINTING, ADVERTISING

Table listing paper, printing, and advertising companies and their share prices.

TRADITIONAL OPTIONS

Table listing traditional options and their share prices.

INDUSTRIALS

Table listing industrial companies and their share prices.

PROPERTY

Table listing property companies and their share prices.

OVERSEAS TRADERS

Table listing overseas traders and their share prices.

MINES

Table listing mining companies and their share prices.

This service is available to every company dealt in on the Stock Exchange throughout the United Kingdom for a fee of 250p per annum for each security.

WORLD STOCK MARKETS

Table of World Stock Markets including sections for Austria, Belgium/Luxembourg, Denmark, Finland, France, Germany, Italy, Japan, and New York. Each section lists various stocks with their prices and changes.

Table of Canada Stock Markets including sections for Toronto and Vancouver. Lists stock prices and market indices.

Table of Indices including New York Dow Jones, Tokyo Nikkei, and various international indices. Includes columns for index values and percentage changes.

Table of New York Active Stocks listing top-performing and underperforming stocks with their respective price changes.

Table of Tokyo Most Active Stocks listing key Japanese stocks and their market movements.

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WORLD STOCK MARKETS

ASIA PACIFIC

Dollar strength depresses Nikkei

Tokyo

THE STRENGTH of the dollar against the yen pushed share prices to a weaker close after an early bout of buying had lifted the Nikkei average to a record high, agencies report from Tokyo.

The market index ended lower despite the removal of uncertainties over who will be the next prime minister and over prospects for an increase in the Japanese discount rate. The Nikkei closed 379 points at 34,190.83 after reaching a high of 34,837.94 near the opening on the first day of trade for June delivery.

The volume rose to 944m shares from Friday's 720m as brokers dealt actively on their own accounts. The Toxig index of all listed stocks edged up 0.11 to 2,531.27. Rising stocks led falls by 469 to 498, with 204 issues unchanged.

"Investors felt confident," said Mr Takahide Furuhashi, analyst for DB Capital Markets (Asia) Ltd. "The dollar is up and there's no consensus on a theme."

According to government sources, the Bank of Japan will decide today to raise its discount rate by 0.75 of a percentage point to 3.25 per cent, effective from tomorrow. The Bank of Japan had no comment.

Mr Furuhashi said this would have no effect. "The market won't rise or fall on the

THE US market was closed yesterday for Memorial Day. In Canada, at mid-session the market was sluggish and mixed with the composite index falling 3.8 to 3,678.70. Cleveland Oil rose 0.3% to C516 in active trading.

rate rise this week. It's used to the idea of a 0.75-point rise. One reason for a discount rate rise is to curb the dollar's surge against the yen. But shares yesterday fell back as the yen dropped sharply to the Y145 level against the dollar. Some dealers said the expected 0.75 point rise has already been discounted in currency markets.

Meanwhile, Mr Sosuke Uno, the foreign minister, is now widely forecast to resign on April 25 following the Recruit affair.

"It's good news for the market. Political concerns have dissipated," said Mr James Tregear, manager of Japanese equities for S.G. Warburg Securities (Japan).

Heavy electric stocks such as Hitachi, Toshiba and Mitsubishi Electric began trading higher but eased towards the close of the morning session. Toshiba topped the list of most active stocks, closing Y10

lower at Y1,980 on 66.58m shares traded.

Leading steel stocks were weaker, with Kawasaki Steel down 2.20 to Y1,060 as 20,500 shares changed hands.

Shipping issues, on the other hand, attracted demand, and Kawasaki Kisen rose Y64 to Y970 in the third most active trading of 32.68m shares.

The market was helped initially by expectations that June will see higher prices prompted by new buying by investment trusts and public institutions. Investors were rotating through bargainer issues most of the day. A large number of investment trust funds are expected to be set up in June, partly to catch a flood of employee bonuses.

Investors supported for bargainer issues, the market average of Y1,504, which was one reason shipping stocks rose.

In Osaka, share prices ended higher, with the OSE average rising 104.45 to 33,119.19 as some 85m shares changed hands.

ROUNDERUP DEVELOPMENTS in China helped Hong Kong recoup some of last week's losses, while Australia benefited from an easing in the local currency. Singapore saw profit-taking.

HONG KONG benefited from bargain-hunting as political events in China appeared more settled, and share prices jumped by almost 3 per cent.

The Hang Seng index climbed 79.84 to 2,845.01 after reaching a five-month low on Friday. Turnover fell to HK\$2,040m from HK\$2,527m.

Blue chips were busy, with Hongkong Land rising 25 cents to HK\$5.50 in the day's most active trading. Hutchison Wharfedale added 30 cents to HK\$10.30.

Hopewell and Trafalgar Housing were suspended, fueling speculation that Hopewell's one-for-one HK\$3.7bn rights issue had fallen through and that Trafalgar would be held to raise cash. The Wu family has stakes in both the companies.

AUSTRALIA saw demand for resource stocks and currency-related issues as the Australian dollar weakened. The All Ordinaries index added 5.1 to 1,536.9 and turnover reached 89.5m shares worth A\$221.7m.

BEI jumped 26 cents to A\$5.54, News Corp rose 20 cents to A\$14.30 and CRA climbed 12 cents to A\$3.

SINGAPORE was constrained by the closure of stock markets in the UK and the US and lost ground in quiet trading. The Straits Times industrial index eased 4.09 to 1,265.49, with institutional investors staying on the sidelines as individuals took profits.

TAIWAN rebounded sharply, lifting the weighted index by 323.23 to a record high of 9,695.67 in the biggest single-day rise this year.

EUROPE

Chemicals and cars boost lively Frankfurt

TRADING was mixed in Europe as some investors ignored holidays in the US and UK and rose actively while others succumbed to an absence of foreign interest, writes Our Markets Staff.

FRANKFURT picked up from a weak start as the strength of the dollar fuelled buying by overseas as well as domestic investors in the chemical and car sectors.

The FAZ index was up 1.21 at 576.57, and the closing DAX showed a gain of 9.83 to 1,865.57 in active volume worth DM4.58m.

The rise was also based on optimism that the Bundesbank would not raise interest rates

again at its council meeting on Thursday. This followed comments by Mr Karl Otto Pöhl, Bundesbank president, that monetary tightening in the past 12 months was beginning to have the desired effect.

Car stock Porsche, which has large exports to the US, benefited from the dollar effect, advancing DM19.50 to DM78.50, while in chemicals BASF gained DM6 to DM313.50.

PARIS saw profit-taking after reaching an all-time high on Friday, with activity restrained by the absence of trading in the US and UK. The CAC General index eased 0.7 to 477.8 while the CAC 40 lost 1.65 to 1,718.27. The OMP 50 index

slipped 0.13 to 494.12. Havas rose FF912 to FF981 on both speculation and fundamental demand.

AMSTERDAM had a quiet day, with turnover of only Fl 405m. The CBS tendency index edged up 0.4 to 179.4 as interest focused on dollar eaters.

Internationals were mostly firm, with Royal Dutch up Fl 1.20 at Fl 145.50 and KLM up 50 cents at Fl 48.50.

ZURICH saw selective demand in late trading but finished little changed amid interest rate concerns. The Credit Suisse index eased 0.2 to 550.3. MADRID kept climbing as investors sought utility stocks and the general index rose 2.58

to 312.69. Volume was somewhat restricted by unconfirmed reports of a possible strike at the exchange today.

MILAN was boosted by enthusiasm for Fiat, whose car division reported a 15 per cent rise in 1988 profits. The group is due to report today.

The Comit index rose 5.78 to 608.18 and Fiat moved up L159 to L9.50.

STOCKHOLM had a thin day's trading with turnover reaching only SEK179m in value. The Affarsvarden index added 2.8 to L1,180.2. South African shares closed lower in quiet trading as the bullion price eased in line with the dollar's rebound.

NOTICE OF A MEETING OF THE HOLDERS BANK OF HELSINKI LTD. (UNION BANK OF FINLAND LTD.) HELSINKI ECU 38,500,000 9% Subordinated Bonds Due 1996

Fiduciary Trust (International) S.A., Geneva, which opened in 1969 as a wholly-owned subsidiary of Fiduciary Trust Company International.

Both CFEG, which has been renamed "Fiduciary Trust International (Swiss) S.A." and Fiduciary Trust (International) S.A. have office at 8, rue Saint-Leger, Geneva.

Fiduciary Trust Company International and its subsidiaries have responsibilities for client investment assets approaching \$18 billion equivalent in value and act as custodian for investment assets valued at over \$40 billion equivalent.

THE THARSIS PUBLIC LIMITED COMPANY NOTICE IS HEREBY GIVEN THAT THE ANNUAL GENERAL MEETING OF THE THARSIS PUBLIC LIMITED COMPANY will be held at Nurex at 1200 rue de Luxembourg on Friday, 23rd June 1989 at 12.00 noon for the following purposes:

THE ROYAL BANK OF CANADA US\$350,000,000 Floating Rate Debentures due 2005

PANTHER LTD Series A US\$25,000,000 Second Floating Rate Note due 1995

ORION ROYAL BANK LIMITED Agent Bank and Principal Paying Agent

HOLIDAYS & TRAVEL PERRY AND CLIVE Chase bargains to and from the USA, AUSTRALIA, SOUTH AFRICA, CANADA, EUROPE, and the Middle East.

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East Rand Gold and Uranium Company Limited

(Incorporated in the Republic of South Africa) Registration No. 71/07001/06

Profit available for distribution increases by 32 per cent

Review by the Chairman Mr E P Gush

Financial results and comments The company recorded another good year with profit available for distribution increasing by 32 per cent to R55.5 million. Dividends of R81.4 million or 135 cents per share were declared compared with 116 cents per share in the previous year and retained earnings increased by R4.0 million to a more appropriate level.

In order to ensure a quicker return on the initial investment and because most of the higher grade reserves were located closer to the plant, the company has followed the policy, established at the start of operations, of treating the higher grade reserves first. As a result of this policy, the in situ gold value of slimes delivered to the Ergo Division has declined steadily from 0.80 grams per ton at the start of operations in 1979 to the present 0.56 grams per ton and 0.53 grams per ton expected next year.

If accepted in toto, the recommendations should benefit most existing mines and provide a more favourable climate for investment in new gold mines. Provided profit margins do not deteriorate significantly, the implication for Ergo is that the rate of taxation should be slightly lower.

NOTICE OF ANNUAL GENERAL MEETING AND OF EXTRAORDINARY GENERAL MEETING The Annual General Meeting and an Extraordinary General Meeting of Shareholders of Mercury Selected Trust will be held at 10, boulevard Roosevelt, Luxembourg, at 11.00 a.m. and 11.10 a.m. (or as soon as practicable thereafter) respectively on 15th June, 1989 for the purposes of considering and voting upon the following matters:

Agenda of the Annual General Meeting of Shareholders 1. To accept the Directors' and Auditors' reports and to approve the financial statements for the year ended 31st December, 1988.

Agenda of the Extraordinary General Meeting of Shareholders 1. To resolve that consent is given so far as necessary under Article 27 of the Articles of Association to the reorganisation of the legal structure of the Company as described in the Explanatory Note sent to Registered Shareholders with this Notice with such modifications as may be required by any competent regulatory or listing authority.

Information for Shareholders Shareholders are advised that a draft (which is subject to modification, inter alia, to comply with the requirements of the competent authority and being authorised) of the draft changes proposed to the Articles of Association of the Company is available for inspection at the registered office of the Company and at the following places:

Taiwan exceeded 330 tons compared with only 57 tons in 1987. These higher imports resulted from a combination of official purchases of bullion aimed at improving trade with the USA and a liberalising of regulations controlling private purchases of bullion. Imports of gold into Japan reached 319 tons, compared with 239 tons in 1987. However, these record levels of demand in the Far East served only to compensate for the reduced interest shown by Western investors in the metal. New production of gold continued to increase in 1988, and similar growth in production is forecast in 1989 and 1990. Supply of gold to the market could be further increased by the continuing use of gold loans which, in 1988, saw as much as 200 tons of gold borrowed from bank reserves and sold to the market, to finance certain gold mine capital projects. However, at some stage, these loans will have to be repaid and this should reduce the supply of newly mined gold to the market.

Inflation The continuing high rate of cost inflation is of great concern to the whole mining industry and every endeavour is being made to contain costs and develop improved systems and technology to combat inflationary pressures. The reduction in the high level of inflation must surely rank as one of the governments highest priorities. No matter how unrealistic this may be it is vital that government commits itself to curtailing its high level of expenditure, limits itself to essentials and avoids duplication of structures as far as possible. Discipline is required at all levels of the economy and if the authorities do not take the lead the danger of accelerated inflation, with all its repercussions, will remain.

Industrial relations In contrast to 1987 when most of the company's black workforce staged a 16-day wage-related strike, the industrial climate during the past year improved significantly. Agreement was reached in wage and salary negotiations with all employee-representative organisations without recourse to strike ballots or strike action. Although several minor disputes with some of the unions occurred, there was little industrial action at any of the divisions during the year compared with a loss of approximately 22 000 man-days in the previous year. The company is still engaged in discussions with the National Union of Mineworkers (NUM) following the events of the 1987 negotiations.

Since the 1987 strike the Industrial Court has ruled in favour of a number of actions involving unfair labour practices by the NUM. However, during the year the Industrial Court ruled in favour of the NUM in a dispute regarding refusal by the company to back-date wage increases in 1987 to workers who participated in strike action. The ruling was, however, referred to the Labour Appeal Court which found in favour of the company.

The response to the Anglo American Group Employee Shareholder Scheme mentioned last year was most gratifying. Of a total of 1 470 eligible employees at Ergo, 1 400 or 95 per cent accepted the offer of five shares in Anglo American Corporation free of consideration. Ergo is to participate in the scheme for a second year and we expect that many of the eligible employees who declined the first offer will accept the current offer.

Appreciation I wish to thank management and all employees at the plants and at head office for their considerable efforts and commitment which continue to make Ergo a profitable operation.



London Office: 40 Holborn Viaduct London EC1P 1AJ

The Business Column

A Japanese lesson in the limits of finance

The quest to unravel the secrets of Japanese manufacturing and apply them on the other side of the world has become one of the most popular pastimes of management consultants. What is more controversial is whether Western managers have anything to learn from Japanese finance and its financial services industry.

The positive view is held not only by enthusiasts for the wholesale imitation of everything Japanese but also by many academics and politicians of the new make-capitalism-work-better left. They argue that the obsession of the City and Wall Street with quarterly results, dealing profits and takeover bids, has pushed Western managers into a narrow, myopic approach towards investment projects.

By contrast, the involvement of Japanese banks in industrial management and their network of long-term relationships has allowed Japanese corporate management to sacrifice short-term profit for long-term market share.

At the other end of the spectrum are those who pour scorn on the lack of sophistication and the blunders of the Japanese financial system. They point to the trillions of yen that Japanese corporate treasurers and investment managers have lost from their investment in US Treasury bonds.

The critics also highlight the rash since 1984 by Japanese companies to issue Eurobond-warrants, worth more than \$100bn, usually on generous terms to investors. This, they say, is a classic example of how wily Western bankers have exploited their naive belief in a free lunch.

The third focus of criticism is on the internal management and low service standards of the supposedly all-powerful Japanese banks. Customers are typically kept waiting for 30 minutes or more while all the paper involved in a simple transaction is processed on the spot and even small decisions are referred up the hierarchy.

Equal obsession with the short term

Both views are seriously flawed. Japanese companies are just as interested as Western companies in short-term results and performance although they often focus more on the monthly sales figures and market shares of themselves and their competitors than on profits. And the banks' influence has waned, as companies' borrowings fall and the value of their cash, land and securities rise.

But the critics also exaggerate. The US T-bond losses of the Japanese are small in relation to their enormous assets which could have found few other overseas outlets of sufficient depth and liquidity.

The Japanese have been learning Western financial techniques fast. Five years ago it was difficult to find senior financial officers or investment managers who were even aware of discounted cash flow (DCF) or risk analysis. Today they talk about betas, deltas, hedge ratios and volatility with as much fluency as Wall Street investment bankers.

However, crucial differences remain. Japanese companies have many more engineers and many fewer specialist accountants than British companies. In a few decentralised Japanese companies such as Matsushita, the finance director wields comparable power and employs teams of accountants (albeit with much broader training in marketing and production) to watch over and "navigate" for subsidiaries. But even Matsushita eschews formal DCF capital budgeting procedures. Information on markets, technology and competitors appears to be collected with remorseless energy before investment decisions are made - but there is no attempt to reduce it all to figures.

In other large Japanese companies, the finance director has little role in vetting or vetoing investment decisions. He just has to find the finance to implement decisions made on broader strategic grounds.

A study last year by the London Business School of UK companies' strategic investment decisions concluded that they were only "about 2 per cent to do with finance." Then why do these companies pay so much for advisers and intermediaries from their overgrown financial sectors?

Clive Wolman

Martin Sorrell does not seem to be a man who is easily irritated. To the press, at least, he appears unfailingly polite and willing to accept criticism - even of a hostile kind. "It's a point of view," he says. Or "you've got to take the rough with the smooth."

When he talks, as he frequently does, about matters of grand strategy, he punctuates his remarks with self-deprecatory asides in case anyone thinks he is getting too pompous. It is not at all easy to pin him down.

These qualities have served him well during the past few weeks, during which his company, WPP Group, made a takeover bid for the world's fifth largest advertising agency, the Ogilvy Group. Although it has all ended in a sweet agreement, it started off as a hostile battle and Sorrell himself was subject to an extraordinary stream of personal abuse from the Madison Avenue establishment. "Ogilvy little jerk" was not the most offensive of the insults.

Was he upset or angered by all this? "Neither." Has he been annoyed by anything at all in the last four weeks? "Yes - but nothing to do with the business." How did he square things with David Ogilvy, founder of the US firm and a main source of virulent anti-Sorrell diatribes only days before he agreed to become chairman of WPP itself if the bid went through? "I'm sure he was misquoted." Sorrell answers with an impenetrable smile. "That is what I said to him, and he said 'Yes, I was. I said even worse things about you.'"

The relationship between the volcanic Mr Ogilvy and the disarming Mr Sorrell need not be too taxing. WPP's board meetings are infrequent affairs, and Ogilvy retired to his French chateau years ago. But he still peppers people with memos: Sorrell admits to having received a couple already.

What Ogilvy and everybody else must want to know is why Sorrell decided to mount a second enormous bid only two years after acquiring the J. Walter Thompson agency, and what he will do with the business now he has got it. Sorrell rehearses his arguments in the manner of one who has been through it all many times before. WPP's idea since he moved in just four years ago has been to build business where the creative people can look after their clients and the

INTERVIEW

A crisply laundered takeover victor

Richard Lambert talks to Martin Sorrell, chief executive of WPP

chances of running the business are left to professional administrators like Sorrell. The business opportunities, he says, arise from the fact that the big clients of advertising and marketing services companies have become much more complex in terms of function and more diverse in terms of geography. WPP wants to be

PERSONAL FILE

1963-68 educated Cambridge University and Harvard Graduate School of Business Administration
1968-69 Consultant Glendinning Associates, Westport, Connecticut
1970-74 Vice president Mark McCormack Organisation
1975-77 Director James Gulliver Associates
1977-88 Group financial director Saatchi & Saatchi
1988 Group chief executive WPP Group
1988 Non-executive director Budge's

able to meet their needs by offering a top quality service in the areas where it is needed.

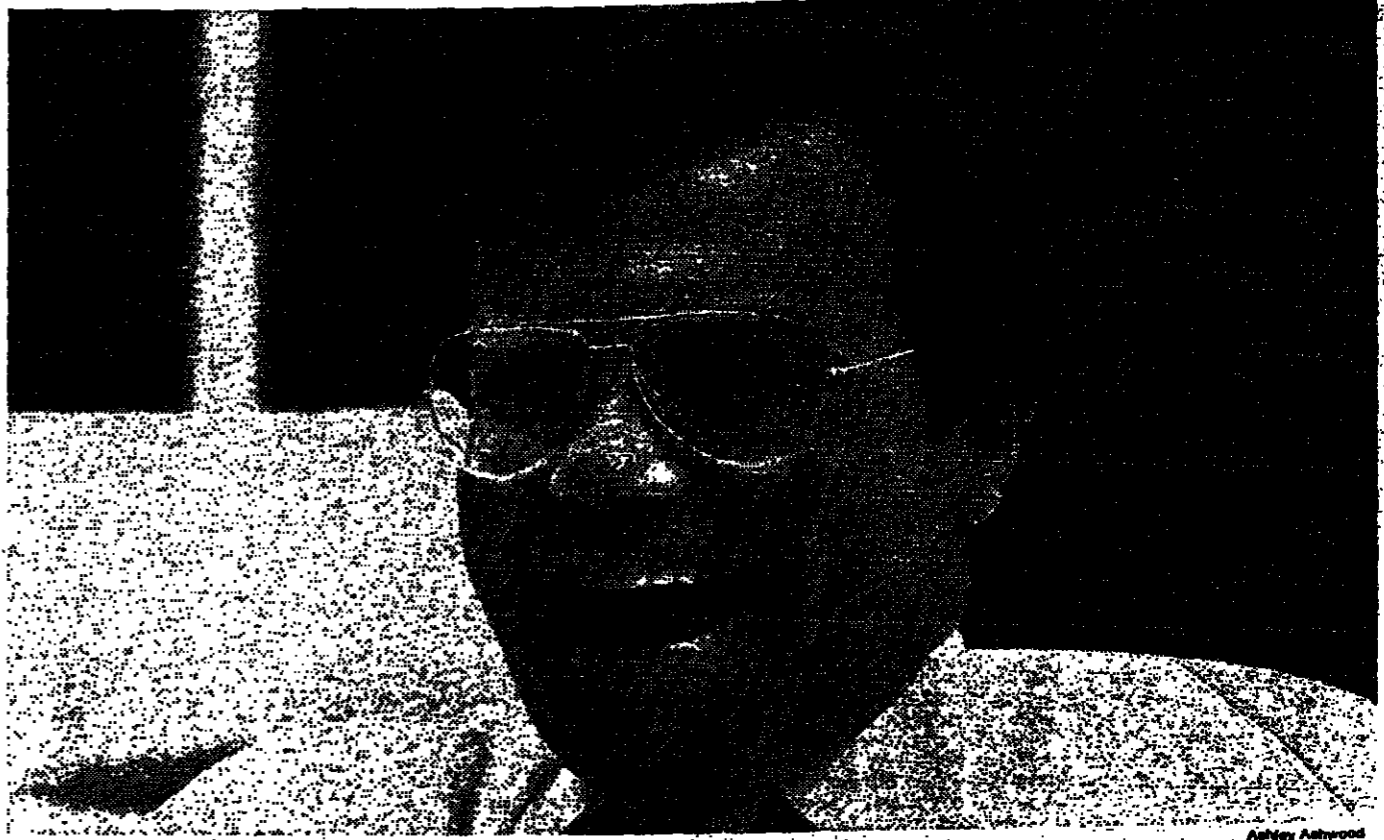
Although they try to pretend otherwise, even the largest advertising agencies are quite small in comparison with their main customers. This matters, because they have to meet the needs of clients that have much larger resources than they have themselves. In other

words, if the customer pops up in south-east Asia, the agency has to do the same or risk losing the business.

However, Sorrell shows a rare spark of displeasure in dismissing the thought that WPP is trying to set up a one-stop shop. That is not the idea at all. The group is deliberately set up in such a way that all its businesses are run on an independent, autonomous basis, and client companies can pick and choose whatever service they want, wherever and whenever they like. He also admits that there are no economies of scale in this business - rather the opposite - and that arguments about the development of global marketing are often overdone. So why own two big agencies, rather than just one?

Here the argument gets a little airy fairy. Just as major manufacturers in the consumer goods sector have developed different brands to compete in the marketplace, so there are different segments in the advertising market which have to be attacked with different "brands" like JWT or Ogilvy and Mather. They are not just businesses: their names represent a certain culture and a particular set of values which have a value in their own right.

You may think this is a little insubstantial, but WPP's auditors don't: the JWT brand name has been revalued in the current set of accounts,



'A business where creative people can look after their clients and the chores of running the business are left to professional administrators'

turning shareholders' funds from a negative to a roundly positive figure. No doubt the Ogilvy "brands" will eventually get the same treatment.

In any event, the main job now is to get ahead with running the business and making the concepts work. Although there are still some areas of weakness, Sorrell says that, by and large, WPP now has the coverage it needs. Little is given away about what he is actually going to do with Ogilvy: it seems that it will be run as an independent business under existing management, and kept quite separate from J. Walter Thompson. But Sorrell believes that the acquisition's profit margins can be boosted significantly from their current levels, and he says there is clear scope for gaining new business by way of cross-referrals from one part of the group to another.

Ogilvy and JWT, he adds, have a complementary client base, which should minimise the potential conflicts of interest arising from common ownership, and they fit well together geographically. Ogilvy is relatively strong in Europe and Australasia, which are

both seen as attractive growth areas.

In the manner of the business school graduate that he is, Sorrell talks without a blush about things like "excellence" and of being leaner and meaner, and his conversation is sprinkled with references to academics like Theodore Levitt or David Maister. The best firms, it seems, are divided into hunters and farmers, and you must decide yourself whether you wish to be a streetfighter or a high priest. Or something like that.

Sorrell's choice of business heroes is intriguing: the list includes the Lords Weinstock and Hanson, Sir Jules Thorn, and Warren Buffett, the sage of Omaha, who is one of America's most successful investors. He also speaks with admiration of James Gulliver, one of his early employers, whom he describes as one of the few people able to combine entrepreneurial vigour with managerial vision.

What about Saatchi & Saatchi, where he served as finance director for nine years before striking off on his own with WPP? They are not mentioned in the list of heroes, and

although Sorrell says he does not want to draw direct parallels between Saatchi and WPP, he does some delicate knife work when it comes to describing the differences between the two groups.

Thus: "our strategy is more focused; we don't have a consulting operation." The way the businesses are run is different, too. "We are a bit more involved... by which I mean there is less absentee landlordism." He also says that so-called "earn-outs" - future payments for past acquisitions - represent a much bigger part of Saatchi's business than of WPP's.

Saatchi has been right out of favour in the City lately, and Sorrell himself is no longer everyone's favourite pin-up. WPP's shares reacted badly to the Ogilvy bid, which represents an enormous mouthful for the UK group and which is being partly financed by a substantial issue of preference shares and subscription warrants. But Sorrell is philosophical. He is not pleased about the recent share price performance, but then he is not in business on a three, four or five year view: he is going for

the long haul. "It would be churlish of me to complain about it (the share price) now having benefited from it two years ago," he says. "If you believe this is right for the company and right for the clients, you have to go ahead and do it."

A lot of City favourites have come unstruck lately, sometimes by going for a deal too far. Despite the recent weakness of the shares, Sorrell is still held in high regard and he says he does not lie awake at night worrying about the examples of the fallen heroes. But in the same breath, he refers to some research that was done on what made particular athletes successful. The most common factor was fear of failure.

After an hour of more or less impertinent questions (which follows an overnight flight from New York) Sorrell remains totally unruffled, not a hair out of place, shirt sleeves crisply laundered. You can see why he gets them so hot up on Madison Avenue: anyone less like the stereotype figure of a creative adman it would be difficult to imagine.

One in the eye for all newspapers

Restitution is the underlying principle of awards damages in English law. So far as money can possibly secure it, the law intends that the victim of a wrongdoing should be restored to the state he or she would have been in had the wrong not been committed.

In only a few instances does the law sanction an award that is intended not merely to compensate the victim but to punish, and thereby mark the socially unacceptable nature of the wrongdoer's conduct.

That exceptional rule indisputably explains the record amount of £500,000 awarded to Mrs Sonia Sutcliffe against the publishers of Private Eye.

No one could pretend that the astronomical award is nothing more than commensurate with Mrs Sutcliffe's loss of reputation. A large slice of the £500,000 represented one in the eye for all newspapers (indiscriminately lumped together in public perception) that nowadays attract much public opprobrium.

Yet the volume of protest should have been stifled a long time ago. For nearly two decades, judges and lawyers have urged that the right of juries in libel actions to give punitive damages to plaintiffs in certain circumstances - a right which is embedded peculiarly in English law - ought to be removed.

Broadly speaking, juries are told that if they think that the publisher of a libel has knowingly and wilfully peddled untruths for his own profit, punitive damages over and above an amount appropriate to compensate for injury to reputation may be added for good measure. Once a jury is properly told when they may inflict punishment on a defamer the sky is almost the limit.

Juries, lacking experience of the law and the proper boundaries of punishment, not infrequently are swayed by emotional considerations which a judge is trained to put out of his mind. And there is no effective appeal against the punishment.

All that a reviewing court can do is to quash the jury's verdict if it thinks that the punishment is more than 12 reasonable people could possibly have awarded. The Court of Appeal is powerless to substitute its own award. Another jury has to be empanelled to perform the task.



JUSTINIAN

It is not as if the wrongdoer, quite apart from an award of exemplary damages, is free from punishment in unsuccessfully defending a libel action. A heavy, indeed often exorbitant punitive element lies in the costs system of litigation. Unlike most other systems the loser normally has to pay to the winner the latter's expenses of going to law.

In 1972, the House of Lords in a famous libel action pointed out the objections to the power of juries to award punitive damages. The power confuses the functions of the civil and of the criminal law. And it imposes a penal sanction without even the safeguards of the criminal justice system.

It is no answer to say that sympathy should not be wasted on people who behave outrageously. Are we wasting sympathy on dangerous criminals when we insist on proper legal safeguards before we convict and sentence them?

Furthermore, juries are apt to forget that in awarding damages they are not making any contribution to the local rates or to the revenues of central government. The fine that they are imposing comes not to swell the coffers of the state but in the form of an unexpected windfall to the victim.

Given that the law of Scotland does not recognise punitive damages, and the judicial

distaste for its extended life in England, there is little wonder that a departmental committee in 1975 should have firmly recommended its instant demise. Two years later, the Royal Commission on the Press noted that this was the most important recommendation about damages that the committee had made.

The invitation, if not entreaty, to legislate away a provision that potentially inflicts too severe a blow on publishers of defamatory matter continues however to fall on deaf politicians' ears.

The report of the 1975 departmental committee has been inexcusably allowed to lie fallow. In 1982, the Government announced that it had no plan for implementing the committee's proposals.

For nearly four years, from 1971 to 1976, 10 experts from a range of professional disciplines laboured over the law, practice and procedure relating to actions for defamation (one of its members is now the senior Law Lord, Lord Keith of Kinkel). The committee produced a report of nearly 200 pages and a draft bill of 41 clauses. Its verdict on the law of defamation may not have been shaped in the contemporary style of radical reform, but it certainly formed a logical progression to its predecessor in the laudable aim of simplifying the law.

In announcing last week that the Lord Chancellor had initiated a review of the law of defamation, to work in tandem with the Government's review of "privacy and related matters", the Government has given the impression of prompt response to an unacceptable piece of recently discovered unreformed law. Tardiness in implementing the sensible recommendations of independent committee reports is no doubt a facet of all governments. The law of libel is just one of the many casualties of political inaction.

But instead of resisting legislative proposals recently prompted and designed to protect the individual from the outcrop of irresponsible journalism, the Government would do better to ensure the proper balance between the public right to freedom of the press and the rights of the private citizen. And that means paying due attention to well-thought-out proposals for reform of the law relating to the media.

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